Management Solutions
Making things happen

Sustainability Regulatory Landscape

Regulatory trends

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Abbreviations used in this document

Abbreviation*	Meaning
ACPR	Autorité de Contrôle Prudentiel et de Résolution
APRA	Australian Prudential Regulation Authority
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
CBI	Climate Bonds Initiative
CC	Climate Change
CMF	Financial Market Commission
COP26	26th Conference of the Parties
CRD	Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms
CRR	Regulation on prudential requirements for credit institutions and investment firms
CSA	Climate Scenario Analysis
CSRC	China Securities Regulatory Commission
CSRD	Corporate Sustainability Reporting Directive
CVM	Brazilian Securities and Exchange Commission
DFFE	Department of Forestry, Fisheries and the Environment
DP	Discussion Paper
EBA	European Banking Authority
EFRAG	European Financial Reporting Advisory Group
EC	European Commission
ECB	European Central Bank

Abbreviation	Meaning
ECLAC	Economic Commission for Latin America and the Caribbean
EEA	European Economic Area
EP	European Parliament
EPA	Environmental Protection Agency
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
ESG	Environmental, Social and Governance
ESRS	European Sustainability Reporting Standards
EU	European Union
FCA	Financial Conduct Authority
Fed	Federal Reserve
FOA	The Food and Agriculture Organization
GFT	Green Finance Taxonomy
GHG	Greenhouse gas
HKMA	Hong Kong Monetary Authority
HM	His Majesty
ILO	International Labour Organization
ISSB	International Sustainability Standards Board
NAAQS	National Ambient Air Quality Standards
NAP	National Adaptation Plan
NCCAS	National Climate Change Adaptation Strategy

*Full name can also be used throughout the document to make it easier to read.

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Abbreviations used in this document

Abbreviation*	Meaning
NCG	New Clean Generation
NDRC	National Development and Reform Commission
NFRD	Non-Financial Reporting Directive
MINECO	Ministry of Economic Affairs and Digital Transformation
MMA	Ministry of the Environment
OECD	Organization for Economic Cooperation and Development
OEP	Office for Environmental Protection
OSFI	Office of the Superintendent of Financial Institutions
PACTA	Paris Agreement Capital Transition Assessment
PBOC	People's Bank of China
PCAF	Partnership for Carbon Accounting Financials
PRA	Prudential Regulation Authority
PS	Policy Statement
PSF	Platform on sustainable finance
RES	Renewable Energy Sources
RNC	Roadmap for Carbon Neutrality
SDR	Sustainability Disclousure Requirements
SEC	Securities and Exchange Commission
SFAC	Sustainable Finance Action Council
SFC	Financial Superintendency of Colombia
SFDR	Sustainable Finance Disclosure Regulation

Abbreviation	Meaning
SME	Small and Medium Enterprises
TCFD	Task Force on Climate-related Financial Disclosures
TNDF	Taskforce on Nature-related Financial Disclosures
TSC	Technical Screening Criteria
UNEP FI	United Nations Environment Programme Finance Initiative
UNFCCC	United Nations Framework Convention
USC	United States Code
2DII	2° Investing Initiative

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Global context

Cross regulatory trends

- *Climate Change Law*
- *Taxonomy*
- *Transparency*
- *Others*

Financial Regulatory trends

- *Risk management and supervisory expectations*
- *Stress Test*
- *Supervisory reporting and transparency*
- *Others*

Why MS?

Annex

For the purposes of this technical note, regulatory trends are classified distinguishing global cross-industry publications from financial sector specific publications

- **Cross-regulatory trends** apply to **all sectors**. For the purposes of the present technical note regulatory developments are classified as follows:

Climate Change Laws

Laws that govern action on climate change by setting actions that fall under the scope of climate change mitigation and adaptation.

Taxonomy

Classification system that defines technical screening criteria allowing a common understanding of activities that contribute to ESG purposes.

Transparency

Standards on corporate disclosure requirements, qualitative and quantitative.

- **Financial regulatory trends** focus only in financial sector particular requirements. Current sectoral sustainability regulation trends can be classified as follows:

Risk Management and supervisory expectations

Regulatory requirements and guidelines and expectations on how institutions should integrate ESG risks into their risk management frameworks

Regulatory Stress Tests

Climate stress tests look at banks' resilience to transition risks, due to new policies and technologies, as well as physical risks, due to acute and chronic extreme weather events.

Transparency

Prudencial disclosures (BCBS Pillar 3) and those specific for the financial services sector (e.g. investment funds, green and social bonds priciples)

This technical note will be **updated periodically** with the **latest trends** in sustainability related regulation covering, at a mínimum, those geographies where Management Solutions operates[1]

1. Where we are | Management Solutions

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Development status by geography

Different degree of development by geographical area

	Global	Europe	America	Asia & Oceania	Africa
Climate change Law		Regulation **available**	Regulation **available**	Regulation **available**	Regulation **available**
Taxonomy		Regulation **on green taxonomy** Regulation **on green taxonomy under development** Regulation **on social taxonomy**	Regulation **available** Regulation **draft available**	Regulation **available** Regulation **under development**	Regulation **available**
Transparency	Regulation **available** GRI TCFD TNFD IFRS S1 IFRS S2	**Directive aligned with the latest global standards.** Different degree of progress **in local transpositions** Regulation aligned with the latest standards **under development**	Corporate disclosure regulation **available** (1) Regulation **available**		
Others	OECD	CS3D Deforestation Regulation Green Claims Directive Directive on the accessibility requirements for products and service stands			

1. Implementation of the SEC's rule has been delayed by legal challenges filed by several states and business groups, so it will not go into effect until the Eighth Circuit Court of Appeals completes its review.

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1 Global context

Development status by geography

Different degree of development by geographical area

	Global	Europe	America	Asia & Oceania
Risk Management and Supervisory Expectations	Regulation **available** BCBS The Global GHG Accounting & Reporting Standard for the Financial Industry OICU-IOSCO	Supervisory expectations **available** Guidelines integration into management **draft available**	Regulation **available**	
Stress Test	Regulation **available** NGFS NGFS RECOMMENDATIONS TOWARD THE DEVELOPMENT OF SCENARIOS FOR ASSESSING NATURE-RELATED ECONOMIC AND FINANCIAL RISKS	Regulation **available** Regulation **draft available**	Regulation **available**	Regulation **available**
Transparency	Regulation **available** BCBS	Regulation **available** Draft ITS ESAP **under development**	Regulation **available**	
Others	Principles **available** The Green Bond Principles The Social Bond Principles	Green Bonds Standard Code of Conduct for ESG		

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Global context

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- *Others*

Why MS?

Annex

EU

European Climate Law | EP/Council | Jul. 2021

FV B

The European Climate Law sets the goal of the European Green Deal for Europe's economy and society to become climate-neutral by 2050. The law also sets the intermediate target of reducing net GHG emissions by at least 55% by 2030, compared to 1990 levels. Furthermore, it recognizes the need to enhance the EU's carbon sink and a process for setting a 2040 climate target.

France

Law on the fight against climate change and the reinforcement of resilience | National Assembly and Senate | Aug. 2021

FV B

This law anchors ecology in French society: in public services, education, urban planning, travel and consumption patterns. It represents an acceleration in the ecological transformation of French society and will have a direct impact on trade that will have to be taken into account by domestic and foreign operators. It sets a target to reduce greenhouse gas emissions by 40% by 2030.

Germany

Climate Change Act 2021 | Bundes-Klimaschutzgesetz | Jun. 2021

FV B

The purpose of this Act is to provide protection from the effects of worldwide climate change by ensuring achievement of the national climate targets and compliance with the European targets. The ecological, social and economic impacts shall be taken into consideration. The basis of the Act is the obligation according to the Paris Agreement, under the UNFCCC, to limit the increase in the global average temperature to well below two degrees Celsius and, if possible, to 1.5 degrees Celsius, above the pre-industrial level so as to minimize the effects of worldwide climate change.

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2 Climate change Law
Europe

Italy

Decree-Law no. 111/2019 | Government | Oct. 2019 FV B

This Decree-Law establishes urgent measures for the definition of national strategic policy to combat climate change and improve air quality, in order to comply with directive 2008/50 / EC obligations.

Netherlands

Climate Act | Government | Jul. 2019 FV B

The Climate Act sets legally binding GHG emissions reduction targets for the Netherlands. Specifically, it mandates the government to reduce its total GHG emissions by 95%, compared with a 1990 baseline, in the long run and achieve carbon neutrality in the electricity sector by 2050. It also requires the government to reduce its emissions by 49% by 2030 in the medium run. Lastly, the laws contains provisions for developing an implementation plan, measuring progress, and monitoring compliance and accountability.

Poland

Renewable Energy Sources Act | Government | May. 2015 FV B

This Act defines the new regime for support to RES (including wind energy, energy radiation of the sun, solar, aerothermal, geothermal, etc.), aiming to stabilise the long-term support system, with the goal to prevent electricity prices form increasing in an uncontrolled manner. The Act also transposes the Directive 2009/28/EC on renewable energy into Polish legislation and aims to contribute to Poland's target of reaching 15% share of renewable energy production by 2020.

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Portugal

Long-Term Strategy for carbon neutrality of the Portuguese economy by 2050 | Government | Jun. 2019

FV B

This RNC2050 sets out the vision and trajectories and identifies guidelines for the policies and measures needed to achieve this carbon neutrality. RNC2050 is also Portugal's Long-Term Strategy to be submitted to the EU and the UNFCCC under the Paris Agreement. Finally, RNC2050 provides insight into key future trends and the necessary economic and social transformations, involving all sectors of the economy and society.

Spain

Climate Change and Energy Transition Law (Law 7/2021)| General Courts | May. 2021

FV B

This Regulation aims to ensure the compliance with the objectives of the 2015 Paris Agreement, to facilitate the decarbonization of the Spanish economy, its transition to a circular model that ensures the rational use of resources and promote adaptation to the impacts of climate change and the implementation of a sustainable development model that generates decent employment and contributes to the reduction of inequalities. It sets a target to reduce GHG emissions by 23% by 2030.

UK

Climate Change Act | Government | Nov. 2018

FV B

The Climate Change Act 2008 is the basis for the UK's approach to tackling and responding to climate change. It requires that emissions of carbon dioxide and other GHGs are reduced and that climate change risks are adapted to. The Act also establishes the framework to deliver on these requirements.

Environment Act | Government | Nov. 2021

FV B

An Act to make provision about targets, plans and policies for improving the natural environment; for statements and reports about environmental protection; about waste and resource efficiency; about air quality; for the recall of products that fail to meet environmental standards; about water; about nature and biodiversity; for conservation covenants; about the regulation of chemicals; and for connected purposes.

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North America

USA

Inflation Reduction Act | Congress | Sep. 2022

FV B

The Inflation Reduction Act of 2022 is the most significant climate legislation in US history, offering funding, programs, and incentives to accelerate the transition to a clean energy economy and will likely drive significant deployment of new clean electricity resources.

Mexico

General Climate Change Law | Chamber of Deputies | Jun. 2012

FV B

The law establishes provisions to address the adverse effects of climate change and regulate actions for mitigation and adaptation to climate change in Mexico.

Central America

Guatemala

Ley Marco de Cambio Climático (Decreto 7-2013)

FV B

Establishes regulations necessary to prevent, plan and respond to the impacts of climate change. Creates a National Information System and provides for broader participation of citizens and organizations

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Central America

Honduras

Ley de Cambio Climático (Decreto 297-2013)

FV B

The law establishes the principles and regulations necessary to plan, prevent and respond in an adequate, coordinated and sustained manner to the impacts generated by climate change in Honduras.

Panama

Estrategia Nacional de Cambio Climático 2050 (Decreto 34)

FV B

Legal framework for climate change in Panama that addresses adaptation and mitigation, establishing proposed actions at the national level. It also establishes 2030 climate goals and a 2030-2050 transparency framework.

South America

Argentina

Law on Minimum Budgets for Adaptation and Mitigation to Global Climate Change | ECLAC | Dec. 2019

FV B

The act aims to establish strategies, measures, policies and instruments related to the study of impact, vulnerability and adaptation activities to Climate Change that can guarantee human and ecosystem development; assist and promote the development of mitigation and reduction strategies for GHG in the country, among others.

D Draft FV Final Version NB Non-Binding B Binding

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South America

Bolivia

Framework of mother earth and integral development to live well | Government | Oct. 2012

FV B

Legislative text for sustainable development, respecting the balance of the natural environment, and giving priority to the rights and knowledge of the indigenous population, which includes numerous provisions on climate change

Brasil

Ley que establece la Política Nacional sobre Cambio Climático (Ley No. 12.187)

FV B

The Law establishes Brazil's National Climate Change Policy, including its principles, objectives, guidelines and instruments.

Chile

Proyecto de Ley Marco de Cambio Climático (PLMCC)

FV B

Establishes the legal framework for Chile to achieve carbon neutrality by 2050.

D	Draft	FV	Final Version
NB	Non-Binding	B	Binding

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South America

Colombia

Ley por la cual se establecen Directrices para la Gestión del Cambio Climático (Ley No. 1931) FV B

It establishes guidelines for the management of climate change in public and private decisions, with the objective of reducing the vulnerability of the population and ecosystems and promoting the transition.

Ley N° 2169 Por medio de la cual se impulsa el desarrollo bajo en carbono del país FV B

Sets minimum targets and measures for carbon neutrality and climate resilience. It highlights the GHG reduction target of 55% for 2030 and the climate neutrality by 2050.

Paraguay

Ley Nacional de Cambio Climático (Ley No. 5.875) FV B

Regulatory framework that allows planning and responding to the impacts of climate change. Therefore, it contributes to implement actions that reduce vulnerability, improve adaptive capacity and mitigation.

Peru

Ley Marco sobre el Cambio Climático (ley No. 30754 de 2018) FV B

Establish the framework for the management of climate change adaptation and mitigation measures, in order to reduce the country's vulnerability, take advantage of opportunities and comply with the international commitments assumed.

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China

Contributions Circular Economy Promotion Law of the People's Republic of China | Governement | Oct. 2018 FV B

This Law is formulated for the purpose of promoting the development of the circular economy, improving the resource utilization efficiency, protecting and improving the environment and realizing sustainable development.

Japan

Climate Change Adaptation Act | Government | Jun. 2018 FV B

It enshrines into law the 2015 National Adaptation Plan and sets updated obligations. It charges authorities to take effective measures in various fields based on "reliable scientific information". It further promotes international cooperation and the involvement of private entities in adaptation efforts. Climate change impact assessments will have to be published every five years by the Ministry for the Environment. Municipalities should establish local climate change adaptation plans.

Act on promotion of global warming Countermeasures | Cabinet | May. 2016 FV B

The purpose of this Act is to promote climate change adaptation, thereby contributing to the health and cultural life of the Japanese people, both now and in the future. The government shall formulate a NAP and should develop methodologies for monitoring and evaluation of the progress of the adaptation, It creates a platform to inform of the adaptation.

Australia

Climate Change Act | Government | Sep. 2022 FV B

The Act aims to legislate Australia's GHG emission reduction targets (of 43% reduction against a 2005 baseline by 2030 and net zero emissions by 2050). Climate targets legislation was a Labor election commitment.

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Kenya

Climate Change Bill | Parliament | Mar. 2023 — FV B

This Act provides a framework for promoting climate resilient low carbon economic development.

Nigeria

Nigeria's Climate Change Act | National Assembly of the Federal Republic of Nigeria| Nov. 2021 — FV B

The Act provides a framework for Nigeria to achieve low GHG emissions through inclusive green growth and sustainable economic development and the implementation of Nigeria's commitment to net zero emissions declared at COP26 in 2021. It establishes the National Council on Climate Change, which will be tasked with implementing the countries climate Action Plan.

South Africa

Climate Change Bill | Parliament | Feb. 2021 — FV B

Its objective is to enable the development of an effective climate change response and a long-term, just transition to a low-carbon and climate-resilient economy and society for South Africa in the context of sustainable development; and to provide for matters connected therewith.

National Climate Change Adaptation Strategy | Department of Forestry, Fisheries and the Environment | Aug. 2020 — FV B

South Africa’s NCCAS supports the country’s ability to meeting its obligations in terms of the Paris Agreement on Climate Change. The 10-year plan, being coordinated by the DFFE, will be reviewed every five years.

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EU

Regulation 2020/852 (Climate Taxonomy) | OJEU | Jun. 2020

FV B

This regulation sets out the criteria for establishing whether an economic activity should be considered environmentally sustainable for the purpose of determining the degree of environmental sustainability of investments. Thus, an exhaustive list of environmental objectives is laid down, as well as a mandate to the EC to create uniform criteria for determining whether economic activities contribute substantially to those objectives. This Regulation applies from December 2019.

Disclosure Delegated Act | OJEU | Jul. 2021

FV B

This Delegated Regulation specifies the content, methodology and presentation of information to be disclosed by large financial and non-financial companies on the share of their business, investments or lending activities that are aligned with the EU Taxonomy. It applies from January 2022 with the following application dates:

Complementary Climate Delegated Act | OJEU | Jul. 2022

FV B

Includes nuclear and natural gas as transitional activities in the EU Taxonomy. It allows these sectors to be labeled as green if they meet specific emission thresholds and sustainability criteria, helping to transition towards renewable energy. New gas facilities must reduce emissions and switch to low-carbon alternatives by 2035. The Act applies from 1 January 2023.

Climate Delegated Act | OJEU | Jun. 2023

FV B

The regulation sets out the technical selection criteria for determining under which conditions a specific economic activity shall be considered to make a substantial contribution to climate change mitigation and for determining whether that economic activity causes significant harm to any of the other environmental objectives. The Climate Delegated Act has been amended by Delegated Regulation (EU) 2023/2485, establishing additional technical screening criteria for determining the conditions under which certain economic activities qualify as contributing substantially to climate change mitigation or climate change adaptation and for determining whether those activities cause no significant harm to any of the other environmental objectives. It shall apply from 1 January 2024. However, point (28) of Annex I and point (26) of Annex II shall apply from 1 January 2025.

Environmental Delegated Act | OJEU | Nov. 2023

FV B

The Environmental Delegated Act contains a new set of TSC for economic activities making a substantial contribution to one or more of the non-climate environmental objectives, namely: i) sustainable use and protection of water and marine resources; ii) transition to a circular economy; iii) pollution prevention and control; and iv) protection and restoration of biodiversity and ecosystems. This Regulation applies from 1 January 2024.

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EU

Final Report of a Social Taxonomy | EC/PSF | Feb. 2022

FV NB

Outlines key elements of a social taxonomy in the current EU legislative environment on sustainable finance and sustainable governance: i) the social objectives and sub-objectives; ii) what types of substantial contribution the activities can make to become socially sustainable; iii) ideas of a structure of Do No Significant Harm; iv) methodology for selecting sectors for these objectives; v) list of desirable characteristics on qualitative and quantitative metrics for Technical Screening Criteria. The report serves as a foundational document, it articulates preliminary goals such as decent work, adequate living standards, and inclusive communities. These objectives will be considered by the EC as they refine and finalize the regulatory framework for social investments in the EU, ensuring that the developed taxonomy aligns with broader sustainability and financial goals

UK

UK Green Taxonomy | HM Government | Nov. 2024

FV NB

Consultation on the UK Green Taxonomy, classifies sustainable economic activities and supports the government's environmental goals. The primary purpose of this consultation is to determine whether a UK Green Taxonomy would be additional and complementary to existing policies in mitigating greenwashing and channelling capital in support of the Government's sustainability goals. To this end, the consultation seeks to gather views on the potential regulatory and market uses of a UK Green Taxonomy that would contribute to these objectives. Drawing on taxonomies developed in other regions, the UK Green Taxonomy will incorporate science-based thresholds and metrics to ensure credibility, alignment with international standards, and usability for market participants.

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Canada

Taxonomy Roadmap Report for Canada | SFAC | Sep. 2022 FV NB

The Taxonomy Roadmap Report contains 10 recommendations addressing the merits, design and implementation of a green and transition finance taxonomy for Canada given that the potential opportunities for Canada far outweigh the risks. Full implementation of the Taxonomy initiative and is expected by end-2025 at the latest.

Mexico

Sustainable taxonomy of Mexico | Ministry of Finance | Mar. 2023 FV NB

Mexico's Sustainable Taxonomy is created with the objective of generating a reliable, legitimate, unified and science-based classification system to define which economic activities can be considered sustainable. With this, it seeks to increase investment in projects and economic activities that promote the fulfilment of the country's environmental and social objectives, as well as Mexico's international commitments in terms of sustainability.

Latin America and the Caribbean

Common Framework of Sustainable Finance Taxonomies for Latin America and the Caribbean | UNEP FI | Jul. 2023 FV NB

This paper is intended to be a guidance document that can serve as a voluntary reference to orient different actors in the region (government and policy makers, development agencies or any other stakeholder) that are in the process of or intend to develop taxonomies in the region. The report implies that taxonomies must be based on similar guiding principles, have design elements such as objectives, classification systems for sectors and activities that are comparable and are similar in approaches and methodologies used for defining eligibility.

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Chile

Taxonomy roadmap from Chile | CBI/ Ministry of finance/ La Mesa | May. 2021

D NB

The Chilean roadmap explains conceptual aspects for the development of a taxonomy, related international developments and their potential implications for Chile, and the steps needed to develop a national taxonomy.

Colombia

Green Taxonomy Colombia | SFC | Mar. 2022

FV NB

Colombia was the first country in LATAM to develop a taxonomy. Its objectives are aligned with those of the EU Taxonomy.

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China

Green Bond Projects Catalogue | PBOC/NDRC/CSRC| Apr. 2021

FV B

On 21 April 2021, in an effort to coordinate green definitions among the financial regulators, the People's Bank of China (PBOC), together with the National Development & Reform Commission (NDRC), and the China Securities & Regulatory Commission (CSRC), jointly released the amended version of the Green Bond Endorsed Projects Catalogue. The updated edition of the Green Bond Catalogue came into effect on July 1st, 2021, with the objectives of building a green financial system, regulating the green bond market further, promoting structural transformation, accelerating the ecological civilization construction, and facilitating sustainable economic development in cohesion with other existing frameworks. The Green Bond Catalogue has achieved three breakthroughs: i) It establishes more scientific and precise definitions of green projects; ii) It sets out improvements in the method of bond issuance and management; and iii) It provides a framework with stability and flexibility for domestic green bond development.

Australia

Sustainable Finance Roadmap | Australian Government | Jun. 2024

D NB

The taxonomy will provide common definitions for sustainable economic activities in Australia and help direct private investment to activities that will support Australia's transition to net zero emissions by 2025. It will also help prevent greenwashing, where companies make misleading claims about their environmental outcomes.

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South Africa

South African Green Finance Taxonomy | Taxonomy Working Group | Apr. 2022 FV NB

The GFT of South Africa defines a minimum set of assets, projects, and sectors as eligible to be defined as “green” or environmentally friendly.

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Global context

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Why MS?

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Global

TCFD recommendations | TCFD | Jun. 2017

FV NB

The TCFD recommendations on climate-related financial disclosures are widely adoptable and applicable to organizations across sectors and jurisdictions. They are designed to solicit decision-useful, forward-looking information that can be included in mainstream financial filings. The recommendations are structured around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets.

Global Reporting Initiative Standards | GRI | Feb. 2023

FV NB

A set of international standards used to measure and report an organization's sustainability performance, aimed at evaluating and comparing its environmental impact with other companies and making informed decisions toward corporate sustainability.

TNFD framework | TNFD | Sep. 2023

D NB

(1)

TNFD was established in response to a growing need for nature to be taken into account in financial and business decisions. Its mission is to develop a risk management and disclosure framework for organizations of all sizes across industries and jurisdictions to report on nature-related risks and opportunities. It seeks to work towards an integrated climate-nature scenario to inform sustainability decision-making. The final recommendations have been published in September 2023, with slight modifications to the last draft in the chapters on governance and risk and impact management.

(1) Annex based on the V. 1 of the TNFD. The executive summary of the final framework will be included in a future release of this technical note.

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Global

General sustainability-related and climate - related disclosure requirements | ISSB | Jun. 2023

FV B

The ISSB standards consist of the standard S1 General Requirements for Disclosure of Sustainability-related Financial Information and the standard S2 Climate-related Disclosures which will help to improve stakeholder's trust and confidence in company disclosures about sustainability to inform investment decisions. Furthermore, it will create a common language for disclosing the effect of climate-related risks and opportunities on a company's prospects. It applies from the first report in 2025 which will be issued with data as at end 2024.

Voluntary application guide for ISSB Standards | ISSB | Sep. 2024

FV NB

The IFRS Foundation's guide to help companies voluntarily implement the ISSB Standards, has as objective to facilitate a progressive transition of companies towards full compliance with IFRS S1 and IFRS S2, improving the transparency and comparability of sustainability-related financial information. In particular, the Guidance covers the following key issues related to the voluntary application of ISSB standards: i) compliance and phased application; ii) transition reliefs; iii) proportionality mechanisms; iv) communication of partial application; and v) use of existing frameworks. The guidance does not modify the requirements of IFRS S1 or IFRS S2, but rather helps companies to provide comparable and reliable information to investors, lenders and creditors, even in the absence of jurisdictional regulation.

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EU

Non-Financial Reporting Directive (NFRD) | EP/Council | Oct. 2014

FV B

The NFRD introduces a requirement for companies to report both on how sustainability issues affect their performance, position, and development, and on their impact on people and the environment. This Directive has been modified by the CSRD. To consider application dates, see the CSRD.

Non-Financial Reporting Guidelines | EC | Jun. 2019

FV NB

These guidelines aims to provide companies with guidance consistent with the NFRD while integrating the recommendations of the TCFD.

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EU

Corporate Sustainability Reporting Directive (CSRD) | OJEU | Dec. 2022

FV B

This Directive amends the Non-Financial Reporting Directive NFRD to introduce more detailed reporting requirements and ensures that large companies and listed SMEs report on sustainability issues such as environmental, social, and human rights and governance factors. Under the CSRD, undertakings have to disclose according to the ESRS. On 5 January 2023, the CSRD entered into force.

European Sustainability Reporting Standards (ESRS) | OJEU | Jul. 2023

FV B

The ESRS set out the requirements for undertakings to report on sustainability-related impacts, risks and opportunities under the CSRD. The reports should make it possible to understand both the undertaking's impacts on those matters and how they affect the undertaking's financial development, performance and position. These standards have been adopted by EC in a Delegated Act in July 2023. It shall apply from 1 January 2024 for financial years beginning on or after 1 January 2024.

Final Report on Guidelines on enforcement of sustainability information | ESMA | July 2024

FV B

In response to the mandate of the Corporate Sustainability Reporting Directive (CSRD), the final guidelines published by ESMA on the supervision of sustainability reporting focus on promoting consistent oversight by national competent authorities (NCAs) of the sustainability information disclosed by issuers subject to CSRD. These guidelines, which expand on the draft published in December 2023, include measures to ensure compliance with sustainability disclosures. Additionally, two new guidelines have been incorporated, covering the publication of regulatory decisions and reporting on enforcement activities, further strengthening the supervisory framework.

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Spain

Law 11/2018 transposing the NFRD | General Courts | Dec. 2018 — FV B

The purpose of the Act is to establish guidelines for the disclosure of non-financial or corporate social responsibility-related information that helps to measure, monitor and manage the performance of companies and their impact on society. This Regulation applies from December 2018.

Draft RD on the estimation of the financial impact of risks associated with Climate Change | MINECO | May. 2023 — D NB

The purpose of this Royal Decree is to establish the criteria for the preparation and publication of the report on the estimation of the financial impact of the risks associated with CC.

Draft Corporate Sustainability Disclosure Law | MINECO | Oct. 2024 — D NB

This draft bill represents Spain's initiative to transpose the European Corporate Sustainability Reporting Directive (CSRD) into national law, establishing a comprehensive framework for corporate sustainability disclosures. This transposes two European directives (Directive (EU) 2022/2464 and Directive (EU) 2021/2167) that improve the framework for reporting and verification of information on ESG issues, and streamline corporate reporting obligations for companies.It mandates that large enterprises, including those of public interest, produce detailed sustainability reports addressing their environmental, social, and governance impacts. The law aims to improve transparency and accountability in corporate reporting by requiring independent verification of sustainability information, ensuring comparability across companies. The new regulatory framework will be implemented in phases to facilitate companies' adaptation. The implementation timeline will begin in January 2024, with gradual extensions to cover additional entities by 2026.

Switzerland

Ordinance on Climate Disclosures | Swiss Federal Council | Nov. 2022 — FV B

Public companies, banks and insurance companies with 500 or more employees and at least CHF 20 million in total assets or more than CHF 40 million in turnover are obliged to report publicly on climate issues. Public reporting involves disclosures not only on the financial risk that a company incurs as a result of climate-related activities, but also on the impact of the company's business activities on the climate. In addition, the company has to describe the reduction targets it has set for its direct and indirect greenhouse gas emissions, as well as how it plans to implement them. The Ordinance entered into force on 1 January 2024.

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UK

Sustainability Disclosure Requirements and investment labels DP 21/4 | FCA | Nov. 2021

D NB

The DP seeks initial views on SDR for asset managers and certain FCA-regulated asset owners, as well as the sustainable investment labelling system.

PS21/24 Climate-related disclosures on TCFD | FCA | Dec. 2021

FV B

It sets the climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers to make climate-related disclosures consistent with the recommendations of TCFD. This PS summarises the feedback received to the consultation and confirm the final policy position. It also contains the final rules and guidance. It will apply from 1 January 2022 for the largest in-scope firms and January 2023 for smaller firms above the £5 billion exemption threshold. The first public disclosures in line with our requirements must be made by 30 June 2023.

PS23/16 SDR and investment labels and Guidance consultation on the Anti-Greenwashing rule | FCA | Dec. 2023

FV B

This document contains final rules and guidance to improve trust and transparency to the market for sustainable investment products. The measures include an anti-greenwashing rule for all authorised firms, three investment labels, and new rules and guidance for firms marketing investment funds based on their sustainability characteristics.

FG24/3 Finalised non-handbook guidance on the anti-greenwashing rule | FCA | April 2024

FV B

The FCA has published finalised non handbook guidance on the Anti Greenwashing Rule, designed to help firms understand and implement the anti greenwashing rule, following feedback from some respondents to the consultation paper (CP) on SDR and investment labels. This rule applies to firms when they communicate with clients in the UK in relation to a product or service, or when it communicates a financial promotion or approves a financial promotion for communication to a person in the UK.

D Draft | FV Final Version | NB Non-Binding | B Binding

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USA

New rules on Climate-related disclosures | SEC | Mar. 2022
FV B

The proposed rules requires companies to provide certain climate-related information in their registration statements and annual reports, including certain information about climate-related financial risks and climate-related financial metrics in their financial statements.

Final Rules Enhancement and Standardization of Climate-Related Disclosures for Investors| SEC | Mar. 2024
FV B

The new rules follow the recommendations of the TCFD and include significant changes to the draft rules, published in May 2022. Companies will be required to disclose aspects related to the governance and management of climate-related risks, their financial impacts, greenhouse gas (GHG) emissions, defined targets and their transition plans.

Brazil

Resolution 193 on the preparation and disclosure of financial information related to sustainability | CVM | Nov. 2023
FV NB

This resolution requires listed companies, investment funds and securitisation companies to prepare and disclose **financial information reports** related to sustainability **based on** the international standard issued by the **ISSB**. Reporting periodicity of the financial information must be at least equal to that of the year-end financial statements. Institutions should apply the new standards since

Resolution 218 on mandatory climate disclosures for listed companies | CVM | Oct. 2024
FV NB

This Resolution establishes the obligation for open companies to disclose information on governance, strategy, risk management, metrics and goals related to climate, aligned with international sustainability standards. The Resolution will come into force on November 1, 2024 and will apply to fiscal years beginning on or after January 1, 2026, allowing for early adoption under certain conditions.

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Global context

Cross regulatory trends

- *Climate Change Law*
- *Taxonomy*
- *Transparency*
- *Others*

Financial Regulatory trends

- *Risk management and supervisory expectations*
- *Stress Test*
- *Supervisory reporting and transparency*
- *Others*

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Guidelines for Multinational Enterprises on Responsible Business Conduct | OECD | Jun. 2023

FV NB

The Guidelines are recommendations jointly addressed by governments to multinational enterprises to enhance the business contribution to sustainable development and address adverse impacts associated with business activities on people, planet, and society.

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Europe

European Accessibility Act (EAA) | OJEU | Jun. 2019

FV B

The purpose of this Directive is to contribute to the proper functioning of the internal market by approximating the laws, regulations and administrative provisions of the Member States as regards accessibility requirements for certain products and services by, in particular, eliminating and preventing barriers to the free movement of products and services covered by this Directive arising from divergent accessibility requirements in the Member States. It will apply from June 2025.

Proposal for Green Claims Directive | EC | Mar. 2023

D B

EU is taking action to address greenwashing and protect consumers, and the environment. Ensuring that environmental labels and claims are credible and trustworthy will allow consumers to make better-informed purchasing decisions. It will also boost the competitiveness of businesses striving to increase the environmental sustainability of their products and activities. This Directive shall enter into force on the twentieth day following that of its publication in the OJEU.

Corporate Sustainability Due Diligence Directive (CS3D) | OJEU | Jun. 2024

FV B

The Directive Due Diligence lays down common rules within the EU on the obligations for companies regarding actual and potential human rights and environmental adverse impacts and on liability for violations of these obligations. Obligations for companies regarding actual and potential human rights adverse impacts and actual and potential environmental adverse impacts , with respect to own operations and operations of their subsidiaries, and the value chain operations carried out by entities with whom the company has an established business relationship. Member States will have two years to transpose the Directive into national law and communicate the relevant texts to the Commission. Companies within the directive's scope must comply within these timeframes from its start date: i) From 26 July 2027 (3 years) for EU companies with over 5,000 employees and a net global turnover above €1,500 million, and for non-EU companies with over €1,500 million turnover within the EU; ii) From 26 July 2028 (4 years) for EU companies with over 3,000 employees and a net global turnover above €900 million, and for non-EU companies with over €900 million turnover within the EU; and iii) From 26 July 2029 (5 years) for all other EU and non-EU companies within the directive's scope.

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Europe

EU Deforestation Regulation implementation | EC | Oct. 2024

D B

The EU Deforestation Regulation aims to ensure that a set of key goods placed on the EU market will no longer contribute to deforestation and forest degradation in the EU and elsewhere in the world. The EC has published additional guidance documents and a stronger international cooperation framework to support global stakeholders, Member States and third countries in their preparations for the implementation of the EU Deforestation Regulation. The law will be applicable on 30 December 2025 for large companies and 30 June 2026 for micro- and small enterprises.

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Global context

Cross regulatory trends

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Financial Regulatory trends

- *Risk management and supervisory expectations*
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- *Others*

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Principles for effective management and supervision of climate financial risks | BCBS | Nov. 2021 FV NB

Through the publication of this consultative document in the form of BCBS Guidelines, the Committee seeks to promote a principles-based approach to improving risk management and supervisory practices related to climate-related financial risks through 18 strong principles directed to banks and prudential supervisors.

The Global GHG Accounting and Reporting Standard for the Financial Industry. Second edition| PCAF | Dec. 2022 FV NB

The Global GHG Accounting and Reporting Standard is comprised of three parts: Part A - Financed Emissions provides detailed methodological guidance to measure and disclose GHG emissions associated with seven asset classes as well as guidance on emission removals. Part B – Facilitated Emissions provides methodological guidance for measuring and reporting the GHG emissions associated with the capital markets transactions. Part C – Insurance-Associated Emissions provides methodological guidance for measuring and reporting the GHG emissions associated to re/insurance underwriting.

Newsletter on the implementation of Principles for the management of climate-related financial risks| BCBS | Nov. 2023 FV NB

Through the publication of this newsletter, the BCBS seeks to provide greater detail on its internal discussions regarding the implementation of the Principles for the effective management and supervision of climate-related financial risks. The document focuses on various challenging areas related to the implementation of the Principles, not constituting new supervisory guidelines or expectations.

Final Report on supervisory practices | IOSCO | Dec. 2023 FV NB

A Final Report describing the main initiatives developed in various jurisdictions to address the phenomenon of greenwashing, both at the level of asset managers and providers of ESG ratings and data. In particular, the Report contains a study on the implementation of the recommendations contained in the 2021 IOSCO Report on sustainability-related practices, policies, procedures and reporting obligations in the area of asset management and the subsequent 2022 IOSCO Call to Action..

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EU

Amending Delegated Acts | EC | April. 2021

FV B

This six delegated acts amend MIFID II, IDD, UCITS, AIFM and Solvency II to require financial institutions to integrate sustainability factors and risks into their internal procedures and into their investment advice to customers:

1. **Del. Directive 2021/1269 which amends Del. Directive 2017/593 (MiFID II)**: Investment firms should consider sustainability factors, and sustainability-related objectives in relation to product governance and oversight arrangements of their products and services.
2. **Del. Regulation 2021/1253 which amends Del. Regulation 2017/565 (MiFID II)**: The amendments to this Regulation introduce the financial objectives and posible sustainability preferences that clientes may express in terms of investment and portfolio management.
3. **Del. Regulation 2021/1255 which amends Del. Regulation 231/2013 (AIFMD):** This Regulation incorporates a number of amendments that clarify the current obligation for AIFMs to integrate sustainability risks.
4. **Del. Directive 2021/1270 which amends Del. Directive 2010/43 (UCITS):** This Directive introduces a series of amendments that clarify the requirements that UCITS must meet regarding the integration of sustainability risks and sustainability factors.
5. **Del. Regulation 2021/1256 which amends Del. Regulation 2015/35 (Solvency II):** This Regulation incorporates a series of amendments that clarify that the system of governance of insurance and reinsurance undertakings and the assessment of their overall solvency needs must reflect sustainability risks.
6. **D. Reg. 2021/1257 which amends D. Regs. 2017/2358 and 2017/2359 (IDD):** The amendments to these Delegated Regulations integrate customer preferences in terms of sustainability as a complement to the suitability assessment. They also incorporate sustainability risks into product oversight and governance requirements and conflict of interest rules.

These amendments apply from 2 August 2022

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Supervisory expectations | ECB | Nov. 2020

FV NB

This guide outlines the ECB's understanding of the safe and prudent management of climate-related and environmental risks under the current prudential framework. It describes how the ECB expects institutions to consider climate-related and environmental risks when formulating and implementing their business strategy and governance and risk management frameworks. This guide is not binding for the institutions, but rather it serves as a basis for supervisory dialogue. The Guidelines apply from their publication in November 2020.

Results of the 2022 thematic assessment on climate and environmental risks | ECB | Nov. 2022

FV NB

The results of the ECB's thematic review of institutions' progress in integrating climate and environmental risk management confirm that the European banking sector has at least basic practices in place for most of the areas addressed by the supervisory expectations. For less significant institutions (LSIs) on average the level of development is lower than for significant institutions (SIs). The report also provides key insights on the degree of integration of climate related risks into strategy, risk governance and appetite, materiality assessments and risk management. The results of the thematic assessment have been incorporated into the 2022 SREP.

Report on the role of environmental and social risks in the prudential framework | EBA | Oct. 2023

FV NB

The Report assesses how the current prudential framework captures environmental and social risks. It recommends targeted enhancements to accelerate the integration of environmental and social risks across the Pillar 1 in the short, medium and long term addressed to financial undertakings and supervisors.

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3 Risk management and supervisory expectations
Europe - (incl. UK)

EU

SSM supervisory priorities for 2024-2026 | ECB | Dec. 2023

FV NB

According to ECB's supervisory priorities for 2024-2026, supervisors will address climate and environmental related reputational and litigation risks arising from the publication of transition objectives and/or net zero commitments. Furthermore, supervisors will pursue their preparatory work to develop a framework for reviewing banks' transition planning and readiness to meet ESG-related mandates in CRD VI. Finally, climate-related risks will continue to be assessed in certain risk-specific OSIs, while targeted stand-alone climate and environmental risk missions are planned to start in 2024.

Consultation Paper of Draft Guidelines on the management of ESG risks | EBA | Jan. 2024

D NB

The guidelines set requirements for the internal processes and ESG risks management arrangements that institutions should have in place, to ensure the resilience of the business model and risk profile of institutions in the short (3 years), medium (3-5 years) and long term (at least 10 years).

Banking Package (CRR III/CRD VI) | OJEU | June 2024

FV B

Among others changes to the Prudential Framework, the Banking Package incorporates the following specific requirements ESG related:

- [CRR III] New harmonised definitions of the different types of risks in the universe of ESG risks are included. These definitions are: ESG risk, Environmental risk, Physical risk, Transition risk, Social risk, Governance risk. EBA is mandated to deliver a report assessing whether a dedicated prudential treatment of exposures related to assets, including securitisations, or activities subject to impacts from environmental and/or social factors would be justified. EU banks will be subject to new requirements to report to supervisors on their cryptoasset exposure. CRR III will also require banks to include information related to cryptoassets in their annual Pillar III disclosures.
- [CRD VI] Introduction of a sustainability dimension in the prudential framework, e.g : CAs are required to assess the adequacy of institutions' exposures as well as of the arrangements, strategies, processes and mechanisms to manage ESG risks in their review and evaluation process. Institutions shall have effective and comprehensive strategies and processes to assess and maintain to cover the nature and level of the risks to which they are or might be exposed in the short, medium and long term time horizon, including ESG risks.

General application of the provisions amending the CRR introducing revisions to the Basel III framework in Europe (January 2025).

As for CRD VI, Member States have a period of 18 months to transpose the Directive into their national legislation, and once this transposition is completed, CRD VI will enter into force on the following day, and will be applicable as of January 11, 2026.

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Institutions for Occupational Retirement Provision (IORPs) | OJEU | Dec. 2016 FV B

The IORP II Directive sets common standards ensuring the soundness of occupational pensions and adequately protecting pension scheme members and beneficiaries. According to the review clause, by 13 January 2023, the Commission should, after consulting EIOPA, review the IORP II Directive and report on its implementation and effectiveness. The Commission started preliminary work on the IORP II directive review but will issue its proposal during the 2024-2029 EC mandate.

Opinion on the supervision of the management of ESG risks faced by IORPs | EIOPA | July 2019 FV B

Four Opinions have been published to assist the NCAs in the implementation of the Institutions for Occupational Retirement Provisions - the IORP II Directive:

- The Opinion on the **use of governance and risk assessment documents in the supervision of IORPs**. on minimum information content to describe how pension funds conduct their ORA and present results from their ORA.
- The Opinion on the **practical implementation of the common framework for risk assessment and transparency IORPs** stresses the importance of forward-looking supervision. The NCAs should increasingly pay attention to pension funds' future viability and operational liabilities of defined contribution schemes.
- The Opinion on the **supervision of the management of operational risks faced by IORPs**. Provides an illustrative mapping of how ESG risks may arise in traditional prudential risks.
- The Opinion on the **supervision of the management of environment, social and governance risks faced by IORPs** encourages NCAs to make IORPs aware of the availability of the common framework as a tool for risk assessment and to stand ready to support pension funds in the application of the tool.

European common enforcement priorities (ECEP) 2024 Statement | ESMA | Oct. 2024 FV NB

The ECEP statement sets out the expectations of ESMA and NCAs regarding the specific areas of focus for the enforcement and supervision of the annual financial reports of issuers of securities admitted to trading on European Economic Area (EEA) regulated markets. The ECEP statement highlights the i) IFRS financial statements; ii) Sustainability statements; and iii) ESEF digital reporting: common filing errors found in the Statement of Financial Position.

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3 Risk management and supervisory expectations

Europe - (incl. UK)

Spain

Supervisory expectations | BdE | Oct. 2020

FV B

These supervisory expectations aim to make explicit how the Bank of Spain considers that institutions should progress in taking into account the risks arising from climate change and environmental degradation, where they deem them material, in their business model and strategy, in their governance, in their risk management and in their disclosure of information to third parties. These expectations are in line with the ECB's "Guide on climate-related and environmental risks". The BdE will initially assess less significant institutions' degree of alignment with supervisory expectations, pursuing an approach similar to that defined by the ECB for significant institutions. Expectations will progressively evolve as a result of this review, and of the regulatory developments that may arise. This guidelines apply from April 2021.

UK

Supervisory Priorities | PRA | Jan. 2023

FV B

The Prudential Regulation Authority has set its 2023 priorities for deposit takers, international banks and insurers active in UK. Across the three groups of entities, the PRA establishes two priorities: on the one hand, alignment with supervisory expectations for outsourcing and third-party risk management, and on the other hand, adopting a proactive approach to address climate change risks and demonstrate their capabilities in meeting supervisory expectations.

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US

Principles for climate-related financial risk management | OCC, Board, FDIC | Oct. 2023

FV B

These principles for largest financial institutions (those with $100 billion or more in total assets) aim to provide a high-level framework for the safe and sound management of exposures to climate-related financial risks.

Brasil

Resolution on Social, Environmental and Climate Responsibility Policy (PRSAC) | BCB | Sep. 2021

FV B

It requires financial institutions to disclose information on their climate policies and their efforts to mitigate climate risks in their investment portfolios.

Peru

Regulation for the constitution of the catastrophic risk reserve | SBS | Dec. 2021

FV B

The Regulation for the constitution of the catastrophic risk reserve is an evolution of the 2005 regulation, with the purpose of ensuring that insurance and reinsurance companies have sufficient financial strength to assume the losses caused by these risks. It applies from June 2023.

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Global context

Cross regulatory trends

- *Climate Change Law*
- *Taxonomy*
- *Transparency*
- *Others*

Financial Regulatory trends

- *Risk management and supervisory expectations*
- *Stress Test*
- *Supervisory reporting and transparency*
- *Others*

Why MS?

Annex

Global

Development of scenarios recommendations for assessing nature-related economic & financial risk | NGFS | Dec. 2023

FV NB

This technical document constitutes another, complementary key deliverable of the Task force that draws from the Conceptual Framework to start developing a forward looking and dynamic perspective on nature-related risks from a more quantitative, in-depth perspective. It provides recommendations towards the development of scenarios to assess nature-related financial risks. It will allow central banks and supervisors to eventually conduct full-fledged forward-looking nature risk assessments.

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EU

Mapping climate risk: Main findings from the EU-wide pilot exercise | EBA | May. 2021 — FV NB

In 2020 the EBA launched a pilot exercise on climate risk as a learning exercise to investigate how existing and newly developed climate risk assessment and classification tools perform, and to test banks' readiness to deal with related data and methodological challenges. In May 2021, the results were made public.

Methodology for a Climate risk stress test | ECB | Jul. 2021 — FV B

The ECB Climate risk stress test aims to test the resilience of the current business models of the largest banks and insurers, and the financial system to the physical and transition risks from climate change. The scenarios of the exercise are: i) orderly transition; ii) Disorderly transition; iii) Hot house world. The results were published in July 2022.

Banking Package (CRR III/CRD VI) | OJEU | June 2024 — FV B

The general objective of CRD VI regarding stress tests emphasizes the need to enhance the focus on ESG risks within the prudential framework. This includes the development of specific ESG stress tests, with the EBA tasked to create guidelines for implementation. This focus on ESG risks is further integrated into the Banking Package (CRR III/CRD VI), which seeks to establish a cohesive regulatory framework that enhances the resilience of the banking sector by incorporating comprehensive risk assessments, including those related to sustainability and climate change.

Guidance template for climate risk scenario analysis Fit-for-55 | EBA | Nov. 2023 — FV B

The purpose of the document is to provide both definitions and technical guidance to participating banks for completing the set of templates for the One-off Fit-for-55 climate risk scenario analysis exercise. In this exercise, information was collected from 110 banks.

Public consultation on draft templates for collecting climate related data from EU banks | EBA | Jul.23 — D B

The Consultation is part of the one-off Fit-for-55 climate risk scenario analysis, which the EBA will carry out together with the other ESAs and with the support of the ECB and the European Systemic Risk Board (ESRB). The draft templates are accompanied by a template guidance. The one-off Fit-for-55 climate risk scenario analysis is expected to start by the end of 2023, with publication of results envisaged by Q1 2025.

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Netherlands

Climate Risk Management and Measurement | De Nederlandsche Bank | Dec. 2018

FV B

Analyze financial stress in scenarios with a disruptive transition to a low-carbon economy.This stress testing framework is designed to be easily applied to institutions/entities. The two types of scenarios are: climate policy and energy technology. A carbon tax of US$100 per tone emitted was established. A technology shock involving the elimination of capital stocks was included.

France

Scenarios and main assumptions of the ACPR pilot climate exercise | ACPR | Jul. 2020

FV NB

Seeks to develop and improve the institutions' capacity to integrate the climate risk in their financial risks' measurement, assessment and day-to-day management.

UK

2021 Biennial Exploratory Scenario | BoE | Oct. 2021

FV B

The Climate risk stress test methodology provides banks with guidance on how to conduct the exercise. The scenarios of the exercise are: i) early action scenario; ii) late action; iii) no additional action. The results were published on May 2022. In general, results show that all participating firms have more work to do to improve their climate risk management capabilities.

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USA

Methodology for a Climate risk stress test | Fed | Jan. 2023

FV NB

The Federal Reserve Board has designed the pilot CSA exercise to learn about large banking organizations' climate risk-management practices and to enhance the ability of large banking organizations and supervisors to identify, measure, monitor, and manage these risks.

Canada

Using Scenario Analysis to Assess Climate Transition Risk | Bank of Canada / OSFI | Jan. 2022

FV NB

This document has the goals of i) building the capability of authorities and participating financial institutions to do climate transition scenario analysis, ii) supporting the Canadian financial sector in improving its assessment and disclosure of climate-related risks and iii) contributing to the understanding of the potential exposure of the financial sector to climate transition risk.

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China

Pilot Banking Sector Climate Risk Stress Test | HKMA | Jan. 2021

FV NB

The pilot CRST exercise was launched to assess the potential impact of climate change on the Hong Kong banking sector. This first-ever, sector-wide pilot exercise seeks to achieve two main objectives: i) assess the climate resilience of the banking sector as a whole under various climate change scenarios and ii) build banks´ capabilities with respect to climate risk management through their participation.

Australia

Climate Vulnerability Assessment | APRA | Sept. 2021

FV NB

The CVA offers an opportunity to incorporate climate-related factors into APRA’s existing stress testing program. This will help to further inform planning for the range of potential future financial impacts that may be triggered by climate change.

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Global context

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Financial Regulatory trends

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Consultative document of disclosure of climate-related financial risks | BCBS | Dec. 2023

D NB

Through the publication of this consultative document, the BCBS summarises its work to assess the prudential rationale for potential disclosure requirements. This consultation represents the Committee's initial step towards developing a Pillar 3 framework for the disclosure of climate-related financial risks, which it recognizes, is an evolving discipline. The Basel Committee also proposes a potential implementation date of 1 January 2026. Comments should be submitted by 29 February 2024.

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EU

Sustainability related disclosures in the financial services sector (SFDR) | OJEU | Nov. 2019

FV B

The SFDR lays down harmonized rules on transparency regarding the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with respect to financial products. It applies from March 2021.

ESAs put forward amendments to sustainability disclosures for the financial sector | ESAs | Dec. 2023

FV NB

The ESAS have developed through the Joint Committee the final report amending the draft RTS to the Delegated Regulation supplementing the SFDR. They also propose adding new social indicators and streamlining the framework for the disclosure of principal adverse impacts of investment decisions on the environment and society.

Pillar III ESG | OJEU | Nov. 2022

FV B

This Regulation provides instructions and a reporting structure for disclosing relevant qualitative information on ESG risks and quantitative data on climate-related risks, including both transitional and physical risks, as well as associated mitigation measures. This disclosure framework aligns with the CRR II mandate, which strengthens the requirements for risk management and transparency. The standards will apply to all significant entities from 2025, ensuring that they provide comprehensive insights into their ESG risk profiles in accordance with the regulatory framework.

Final Report on draft ITS specifying tasks of collection bodies and the EU single access point | ESAs | Oct. 2024

D B

The Final Report on the draft ITS regards certain tasks of the collection bodies and functionalities of the ESAP. These standards are designed to make financial and sustainability information easily accessible and usable for future users on a centralised platform. The ESAP is foreseen in Level 1 legislation to be a two-tier system, where information is first submitted by entities to the OAMs, offices and agencies of the EU, national authorities, among others and then made available by the collection bodies to the ESAP. The ITS outline how collection bodies, such as official mechanisms and national authorities, must manage and provide information to ESAP, including the format, validation checks, and metadata requirements. They also specify how information will be made accessible on the ESAP platform, including categorization of reporting entities, and the public Application Programming Interface to facilitate data access. The ESAP is set to begin collecting information in July 2026, with the publication starting by July 2027. The Final Report has been submitted to the EC for adoption.

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US

ESG Investment Practices | SEC | May. 2022

D B

The proposed rules are designed to create a consistent, comparable, and decision-useful regulatory framework for ESG advisory services and investment companies to inform and protect investors while facilitating further innovation in this area of the asset management industry. SEC proposes that the compliance date of any adoption of this proposal for the following items would be: One year following the effective date of publication for most of the provisions and 18 months following the effective date of publication for the proposed disclosures in the report to shareholders.

Enhancement and Standardization of Climate-Related Disclosures for Investors | SEC | March. 2024

FV B

Final rules for the Enhancement and Standardization of Climate-Related Disclosures for Investors, which aim to improve the consistency, comparability, and reliability of climate-related information for investors, based on the recommendations from Task Force on Climate-related Financial Disclosures (TCFD) framework and comments received on the draft. Thus, companies with a public float of more than $700 million will be the first to have to start disclosing under this new standard for fiscal years beginning on or after January 1, 2025 [1].

Argentina

Exposure to Financial Climate Physical and Transitional Risks| Central Bank | Aug. 2023

FV B

This Requirements obliges financial institutions to submit geolocated information (geographical location) of the main productive units in Argentina and, if applicable, outside the country, covering the main sources of income of those legal persons that shall be requested by e-mail to the person responsible for the generation and compliance of the information regimes of each entity. This requirement should be presented before 20/10/2023.

Brazil

Relatório de Riscos e Oportunidades Sociais, Ambientais e Climáticas | BACEN | Dec. 2022

FV B

This proposed regulation requires financial institutions to disclose information on risk governance, the institution's strategies for business, risk and capital management in the short, medium and long term, considering various scenarios, and its risk management processes. Phased implementation until 2024.

1. Implementation of the SEC's rule has been delayed by legal challenges filed by several states and business groups, so it will not go into effect until the Eighth Circuit Court of Appeals completes its review.

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Chile

New Clean Generation 461 Supervision | CMF | Jun. 2022

F B

The NCG No. 461 amends NCG No. 30 regarding the structure and content of the annual report of securities issuers by incorporating sustainability and corporate governance issues comprehensively in that report. The provisions of the rule, especially those related to sustainable finance (e.g. the section dedicated to risk management) include the mandate to develop Supervisory Expectations with the objective of making public ex ante the supervisor's criteria for analysing compliance by regulated entities. The first mandatory reports will start to be published from 2023.

New Clean Generation 519 Supervision | CMF | Oct. 2024

F B

The NCG No. 519, amends NCGs No. 30 and No. 461. The new regulation improves the sustainability reporting and corporate governance instructions and insures that the modifications are aligned with the international sustainability standards of the ISSB, specifically with IFRS S1 and S2. This regulation will be mandatory beginning with the 2026 fiscal year, which is reported in 2027.

Colombia

Technical Document for the management of climate risks and opportunities for the insurance industry | SFC | Jun. 2023

FV NB

The SFC has published the Guide of principles for the management of financial risks associated with climate change, which seeks to clarify the supervisor's expectations regarding governance, strategy, risk management, scenario analysis, information disclosure and the insurance industry's outlook for the evolution of climate risk management.

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Green Bonds Principle (GBP) | ICMA | Jun. 2021

FV NB

GBP seek to support issuers in financing environmentally sound and sustainable projects that foster a net-zero emissions economy and protect the environment. GBP-aligned issuance should provide transparent green credentials alongside an investment opportunity. By recommending that issuers report on the use of Green Bond proceeds, the GBP promote a step change in transparency that facilitates the tracking of funds to environmental projects, while simultaneously aiming to improve insight into their estimated impact. The GBP, updated as of June 2021, are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond.

Social Bonds Principle (SBP) | ICMA | Jun. 2023

FV NB

SBP seek to support issuers in financing socially sound and sustainable projects that achieve greater social benefits. SBP-aligned issuance should provide transparent social credentials alongside an investment opportunity. By recommending that issuers report on the use of Social Bond proceeds, the SBP promote a step change in transparency that facilitates the tracking of funds to social projects, while simultaneously aiming to improve insight into their estimated impact. The SBP, updated as of June 2023, are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Social Bond market by clarifying the approach for issuance of a Social Bond. The SBP recommend a clear process and disclosure for issuers, which investors, banks, underwriters, arrangers, placement agents and others may use to understand the characteristics of any given Social Bond.

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EU

European Green Bonds Standard | OJEU | Nov. 2023

FV B

The purpose of the legislative text is to establish uniform requirements for bond issuers who want to use the European Green Bond (EUGB) designation, as well as to incorporate a system for registering and monitoring external verifiers of EUGBs, and to develop optional disclosure templates for environmentally sustainable or sustainability linked bonds in the EU. The EUGB will come into force on 21 December 2023 and will start applying on 21 December 2024.

UK

Code of Conduct for ESG | FCA | Dec. 2023

FV NB

The new code of conduct for ESG data and ratings providers aims to foster a trusted, efficient and transparent market, by introducing clear standards for ESG ratings and data products providers and clarifying how such providers can interact with wider market participants. Each principle in this code of conduct is underpinned by a series of actions, which provide a practical guide to the application and interpretation of the principle. By signing up to this voluntary code of conduct, providers agree to make available publicly, and to review at least annually (updating where appropriate), a statement explaining their approach to the implementation of the code of conduct.

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Global context

Cross regulatory trends

- *Climate Change Law*
- *Taxonomy*
- *Transparency*
- *Others*

Financial Regulatory trends

- *Risk management and supervisory expectations*
- *Stress Test*
- *Supervisory reporting and transparency*
- *Others*

Why MS?

Annex

4 Why Management Solutions?

Management Solutions has a group of experts who support its clients in developing and implementing sustainability and climate risk management frameworks in each of the 6 defined axes of action

MS opportunities in sustainability and climate change

1 *Strategy, management and culture*

- Diagnosis, strategic framework and overall action plan
- Change management
- Project management (PMO)
- Observation (Regulation / Market)
- Training

2 *Self-assessment of balanced development*

- Alignment and gap analysis with regulatory requirements
- Definition of regulatory and internal taxonomy. Eligibility criteria and definition of certification processes.
- Implementing the taxonomy: inputs, drivers and results
- Implementation of the Equator Principles v4 (Equator Principles)....

3 *Sustainable business development*

- Market diagnosis and analysis (depending on the type of business), including market *research*, SWOT analysis....
- Product/service definition (*sprints*)
- Commencement and implementation

4 *Risks*

- Policy and risk framework
- Measurement methodologies (portfolio review, impact assessment (transitional and physical scenarios) and alignment
- Incorporate ESG principles into the admissions model
- Management integration (appetite, rating, hedging, valuation).

5 *Data and technologies*

- Requirements and definition of the ESG model (conceptual, logical and physical)
- Model definition, metrics definition and KPI gap analysis
- Definition of functional and technological architecture
- Analysis of alternatives (suppliers/own company)
- Implantation

6 *Reporting*

- Implementing requirements (NFRD Supplement, TCFD, GRI standards...) + benchmarking best practices of *other companies.*
- Content definition
- Governance and mechanisms to ensure quality and consistency of information

Business Areas

- ***Retail***
- ***Consumer***
- ***Wholsale banking and markets***
- ***Asset management***
- ***Insurance***

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Annex

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Annex 1: Social Taxonomy

Articulating and setting social objectives

In the Final Report of a Social Taxonomy the PSF summarises the initial observations and recommendation on the mandate given by the EC to work on extending the taxonomy to social objectives

1-Application

This paper constitutes an **input for the definition of the final objectives by the EC** and might not be the **final objectives** that the EC will use.

2-Regulatory context

Art. 26 of the TR mandates the EC to elaborate a **report to extend the initial objectives** to social objectives. For this propose, the EC established the **PSF** (Art. 20), which shall **advise the EC** in the matter.

3-Next steps

- The PSF and the EC to deepen in some of the aspects of the study.
- The EC to publish the **final report of the TR**.

The PSF outlines the key elements of the social taxonomy[1] following the steps of the environmental taxonomy[2]:

1 — 3 objectives

- **Objectives:** i) decent work; ii) inclusive and sustainable communities and societies; iii) adequate living standards and wellbeing for end-users.
- **Sub-objectives** have been developed.

2 — 3 Substantial contributions

Types of **substantial contributions:** i) avoiding and addressing negative impact; ii) enhancing the inherent positive impacts ; iii) enabling activities.

3 — DNSH and Min. safeguards

- Structure of DNSH outlined but criteria **not developed**.
- Minimum safeguards will be developed in a **future report**.

4 — Qualitative and quantitative metrics

List of desirable characteristics on **qualitative and quantitative metrics**.

(1) For more information see Annex I

Access the full report

(2) For more information see Annex II

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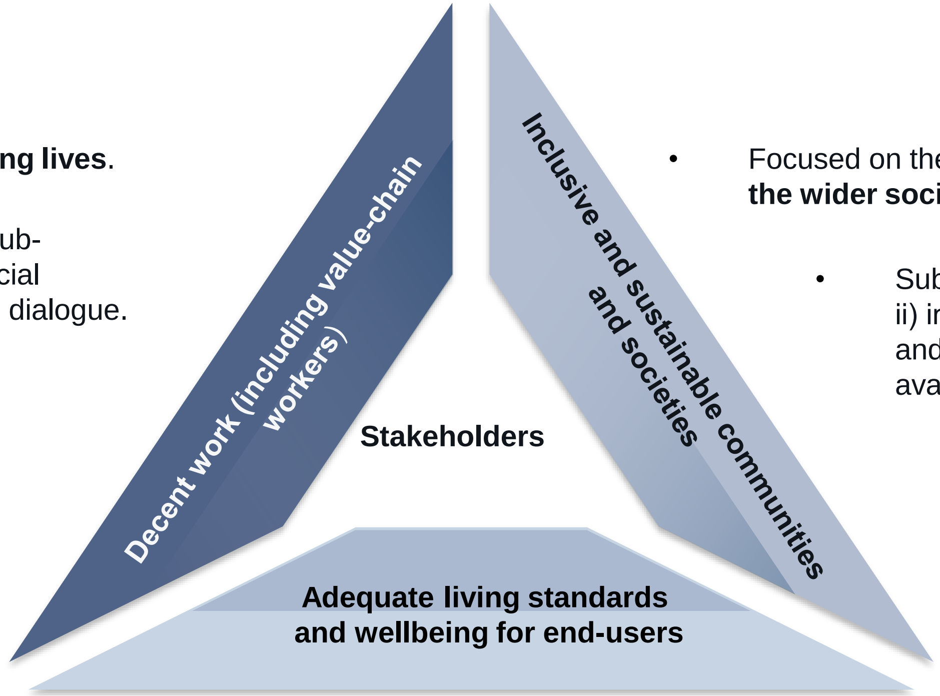
Annex 1: Social Taxonomy
Articulating and setting social objectives

Three objectives for a social taxonomy: i) decent work; ii) adequate living standards and wellbeing for end-users; and iii) inclusive and sustainable communities and societies[1]

- Focused on people in **their working lives**.
- **Four pillars**, (that are emphasized with sub-objectives): i) employment creation, ii) social protection, iii) rights at work and iv) social dialogue.
- Not limited to the **European Union**.



- Focused on the impacts of **activities on communities and the wider society**.
- Sub-objectives **emphasize issues** such as: i) land rights; ii) indigenous people's rights; iii) human-rights defenders; and iv) improving/maintaining the accessibility and availability of basic economic infrastructure.

- Focused on people in their role as **end-users** of certain **products and services**.
- Sub-objectives will emphasize aspects related to **consumer protection** and the realization of economic and social rights: i) right to health; ii) food, iii) housing and iv) education.

(1) For more information on how the objectives are defined see Annex III

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A | Annex 1: Social Taxonomy

Articulating and setting social objectives

Each objective includes a list of sub-objectives which emphasize the content of the objective and ensures that various aspects integral to these objectives can be addressed

The sub-objectives must cover all the **essential topics of each objective without overlapping between them**.

Non-Exhaustive

Objectives	Topics
1- Decent work	Promoting **decent** work; Promoting equality and **non-discrimination** at work; Respect for the **human rights** and **workers' rights**
2- Adequate living standards and wellbeing for end-users	Healthy and **safe products**; Durable and **repairable products**; Protection of **personal data** and privacy; Responsible **marketing** practices; Quality **healthcare** products; Healthy and highly **nutritious food**; Good-quality drinking **water** and **housing**
3- Inclusive and sustainable communities and societies	Equality and **inclusive growth**; Sustainable **livelihoods** and land rights; Respect for the **human rights** of affected communities

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Annex 1: Social Taxonomy

Articulating and setting social objectives

Three types of substantial contributions: i) avoiding and addressing negative impact; ii) enhancing the inherent positive impacts; and iii) enabling activities

Avoiding and **addressing negative** impact

Targeting:
- **High-risk sectors** with documented human-rights and labor-rights abuses of relevance to the objective.
- Sectors that are **less likely to contribute** to the objectives of the European social pillar.

E.g: Improving OHS

Enhancing the inherent **positive** impacts

Targeting:
- Social goods and services sectors that provide goods and services for basic human needs.
- **Basic economic infrastructure** of direct relevance to the right to an adequate standard of living.

E.g: Providing affordable pharmaceuticals to certain groups of people.

Enabling activities

- Having the potential to enable **substantial risk reductions** in other sectors.

E.g: Social auditing services which help to reduce negative impacts on value-chain workers.

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Annex 1: Social Taxonomy

Articulating and setting social objectives

DNSH criteria ensure that when an activity makes a substantial contribution to one social objective, it does not harm the other social objectives. On the other hand, an economic activity-based framework is required to underpin the social taxonomy. These activities are linked with CapEx, OpEx or turnover

DNSH

DNSH criteria which must be **developed at the level of the sub-objectives**. For example, an economic activity that makes a substantial contribution to living wages should not: i) harm equal employment opportunities for women; ii) undermine collective bargaining processes; iii) use child or forced labour in supply chains.

Selecting sectors

It is needed to justify a priotization of the sectors for each objective and sub-objectives. A methodology has been developed based on the use of the framework of economic sectors and activities (determined by the NACE industrial classification system) and considering the selection of the relevant sectors (according to the criteria defined to determine the substantiality of the activities): i) sectors that avoid **negative impacts**; ii) that enhance **positive impacts**; iii) the sectors that **enable said positive impacts**.

KPIs

Linking **CapEx, OpEx and turnover** to social activities build on the differentiation between 'reducing negative impacts' on the one hand and 'enhancing inherent social benefits' on the other.

1. A company's investments made to address and avoid their negative impact might count as a social contribution (e.g. the expenditure for training as defined in a social taxonomy will count as socially sustainable). **The amount of this investment would then be reflected as OpEx**.
2. This might be different if a **whole bundle of social criteria is attached to an activity**, such as for a fair-trade product or a mineral sourced from a mine with an approved social certificate. In this case, it might be that the **turnover made with the sale of the product** will be counted as socially sustainable.
3. Finally, it is suggested that the company selling the product/service which **enables** other company to address and avoid negative impacts, counts the **turnover made with these products/services as 'socially sustainable**'.

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A | Annex 1: Social Taxonomy

Articulating and setting social objectives

The PSF has set some examples of the different sectors related to the different objectives and selected sub-objectives, which can be classified according to NACE codes[1]

Non-Exhaustive

Objective 1: Decent work

Sub-objective	Sectors	Related NACE	Substantial contribution criteria
Occupational health and safety	e.g: 1. mining and quarrying 2. manufacturing; 3 construction;. 4. agriculture, forestry and fishing; 5. transportation and storage; and 6.electricity, gas, steam and air conditioning supply	1. B; 2. C; 3.F; 4.A; 5.H; 6.D	Addressing and avoiding negative impacts
Training	e.g[2]: 1. manufacturing; 2. education; 3. human health and social work activities; 4. arts, entertainment and recreation; 5. other services activities	1.C; 2.P; 3.Q; 4.R; 5.S	Addressing and avoiding negative impacts
Diversity and inclusion	Relevant in all sectors	-	Addressing and avoiding negative impacts
Living wage	All sectors (in particular sectors with many workers on lower wage); Sector exposed to international competition (e.g. 1- textiles); Sectors exposed to social dumping (e.g. 2. agriculture); Labour-intensive sectors with little added value (e.g. 3 - some construction sub-sectors).	1. C13, G46.4. G47.5.1; 2.A; 3.F	Reducing negative impacts for workers
Not specified	e.g: social audits	M69.2	Enabling activities

(1) For the social taxonomy, NACE may in some areas **need to be supplemented** by additional categories, where the current level of granularity within NACE is not sufficient.
(2) Example of sectors with skills shortages according to OECD

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Annex 1: Social Taxonomy

Articulating and setting social objectives

The PSF has set some examples of the different sectors related to the different objectives and selected sub-objectives, which can be classified according to NACE codes

Non-Exhaustive

Objective 2: Adequate living standards and wellbeing for end-users

Sub-objective	Sectors	Related NACE	Substantial contribution criteria
Access to housing	e.g: building and managing apartments and houses	F.41.20	Enhancing the positive impact inherent in an economic activity
Access to health	e.g: 1. water, including waste-water management; 2. food, including the food value chain; 3. housing; 4. healthcare, including care work; 5. education (including vocational training);	1. E, C11.0.7, F42.9.1; 2. C10, C28.9.3, G46.1.7, G46.3, G47.2, I; 3. F.41.20; 4 Q; 5. P	

Objective 3: Inclusive and sustainable communities

Sub-objective	Sectors	Related NACE	Substantial contribution criteria
Supporting sustainable livelihoods and land rights	e.g: 1. agriculture, forestry and fishing, 2. mining, 3. electricity, 4. construction, 5. transportation and storage.	1. A; 2.B; 3.D; 4.F; 5.H	Addressing and avoiding negative impacts
Promoting equality and inclusive growth	e.g: 1 transport; 2. telecommunications including the internet; 3. financial services; and 4. electricity	1.H49,H50,H51,N77.3.4, N77.3.4; 2.J61; 3. K; 4.C27.1, D	Enhancing the positive impact inherent in an economic activity

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Annex 1: Social Taxonomy

Articulating and setting social objectives

Stakeholder-centric technical screening criteria would ultimately include qualitative and quantitative metrics and thresholds that target key business impacts on these stakeholder groups

- Some of the data needed for social criteria (for example on staff wages, health and safety) are already at the disposal of companies and official bodies. In addition, the **EFRAG taskforce** is currently working out non-financial reporting requirements on the three stakeholder groups.
- For further consideration, the Platform suggests the following criteria for indicators for a social taxonomy:

- ✓ **Relate to a norm**, **process or goal** in internationally **recognized standards**, such as the UN guiding principles, the SDGs, the EU Social Charter and the EU pillar of social rights.
- ✓ The indicator must be a **good proxy** for the objective it addresses.
- ✓ The indicator should be specific enough to relate it to an **economic activity**.
- ✓ The indicator must have **a clear direction**. For example, when evaluating complaint mechanisms, we should ask the following questions: Is it good if there are many complaints, as this shows that workers trust the complaint mechanism?
- ✓ The indicator should be **precise** so that there is no doubt whether an activity fulfils it or not.
- ✓ Indicators should avoid **driving perverse incentives** or unintended consequences, such as unintendedly driving divestments from SMEs.
- ✓ Data should be **available at reasonable cost**. Differences between larger and smaller companies should be considered.

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Articulating and setting social objectives

Considering all the analysis carried out, the PSF suggests what should be the next steps for the development of the Social Taxonomy by the EC

Reflections

There are still many unanswered questions as to what a social taxonomy will look like and what the relationship between a social and an environmental taxonomy will be.

Due to the impact on the market participants, the social taxonomy will have a knock-on effect on economic entities, which will strive to **be recognized as 'social' investments, provide the necessary data, intensify efforts on social economic activities,** and **implement the necessary processes**.

Next Steps appointed by the PSF

1. Clarify the **minimum safeguards**;
2. Conduct a **study on the impacts of a social taxonomy** considering different options for application and designs;
3. Work out a **rationale for prioritizing objectives and sub-objectives**;
4. Prioritize objectives **according to the rationale**;
5. Define **substantial-contribution and DNSH criteria** for the first objective(s) and sectors.

EFRAG mandates

Under the CSRD proposal (art 49.3), EFRAG would develop draft EU Sustainability Reporting Standards. The timeline contained in the proposal assumes the elaboration of draft sustainability reporting standards in parallel to the legislative process of the proposed CSRD. In order to respect tis timelines, EFRAG should aim to submit the first set of standards by **15 June 2022**[1].

1. Source: News - EFRAG

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Annex 1: Social Taxonomy

Articulating and setting social objectives

These examples do not represent fully worked out criteria of a social taxonomy. Instead, they should be considered as sketches to illustrate how the suggested structure would work in practice

Objective: Decent work, sub-objective: training

	Rationale for selecting sectors		
Selection of sectors	High-impact NACE codes could be selected via: 1) sectors with skills shortages – according to OECD and EU data 2) sectors negatively affected by the green transition or digitalization with risks of layoffs and therefore a special need to train certain groups of employees 3) sectors with general shortages of skills.		
	Reducing negative impacts for workers		
Type of Substantial contribution	The entity runs extensive programs for skills and lifelong learning/upskilling/reskilling for workers in situations of vulnerability. There is a high level of worker involvement in the development of these programs (OpEx for training).		
	Decent work	**Adequate living standards and wellbeing for end-users**	**Inclusive communities & societies**
DNSH	Workers must be paid at least the national minimum wage, where available, or according to negotiations and collective bargaining by social parties. ILO core labor standards must be met. There must be adequate OHS.	N/A	No discrimination in training offers.

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Annex 1: Social Taxonomy

Articulating and setting social objectives

These examples do not represent fully worked out criteria of a social taxonomy. Instead, they should be considered as sketches to illustrate how the suggested structure would work in practice

Objective: Adequate living standards and wellbeing for end-users, sub-objective: access to housing

<table>
<tr><td rowspan="2">Selection of sectors</td><th colspan="3">Rationale for selecting sectors</th></tr>
<tr><td colspan="3">Sectors which provide products and services for basic human needs (according to the Universal Declaration of Human Rights accepted by the General Assembly of the UN on 10 December 1948 -Articles 11 and 25-). Sectors related to the production of goods and services for basic human needs: food, water, housing, healthcare, education (European Social Pillar).</td></tr>
<tr><td rowspan="2">Substantial contribution</td><th colspan="3">Enhancing positive impact inherent in economic activity (examples)</th></tr>
<tr><td colspan="3">Improve availability (examples): The health care is available in sufficient quantity to cover people in need
Improve accessibility (examples): The drug is affordable and economically sustainable for the countries where it is distributed
There is an access strategy for the new medicine, which is developed when clinically tested</td></tr>
<tr><td rowspan="2">DNSH</td><th>Decent work</th><th>Adequate living standards and wellbeing for end-users</th><th>Inclusive communities & societies</th></tr>
<tr><td>ILO core labor standards must be met. There must be adequate OHS. Minimum wage must be paid to workers.</td><td>Guarantee quality (examples)
Meeting internationally accepted standards of quality</td><td>Effluent must not pollute drinking water.</td></tr>
</table>

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Annex 1: Social Taxonomy

Articulating and setting social objectives

It is recommended that the development of a social taxonomy follow the model of the environmental taxonomy where possible. This might help with global market acceptance and understanding. However, differences between them must be taken into account

	Economic activities	Foundations	Quantitative vs Qualitative criteria
Environmental taxonomy	Aim at: • **Reducing negative environmental impacts.** • **or reversing** these impacts through carbon capture or ecosystem restoration.	• Criteria developed on the basis of scientifically validated research results (**natural science**).	• Scientific research makes it possible to attach highly relevant **quantitative criteria** to economic activities.
Social taxonomy	• Tend to have **inherent social benefits** (e.g creating jobs, or contributing to taxes). • Its role is to differentiate between the **inherent and additional social benefits** of economic activities (e.g if a pharmaceutical company improves the accessibility and affordability of certain drugs for certain people).	• Internationally agreed **authoritative norms and principles**.	• Social sustainability is at the moment often described in more **qualitative terms**. • Nevertheless, developments are occurring in the field of quantifiable social data (e.g. EU acquis in the social fields gives clear policy and legislative indicators that measure social impact).

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The foundations of a social taxonomy are established international norms and principles

- The Universal Declaration of Human Rights
- The International Covenant on Economic, Social and Cultural Rights
- The International Covenant on Civil and Political Rights
- The ILO Declaration on Fundamental Principles and Rights at Work
- The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy
- The European Convention on Human Rights

- The European Social Charter
- The Charter of Fundamental Rights of the European Union
- The European pillar of social rights
- The SDGs
- The UNGPs
- The UN Global Compact
- The OECD guidelines for MNEs.

These documents explicitly cover and/or reference a set of fundamental freedoms and rights that countries have agreed to uphold and enforce to ensure that people and communities live dignified lives.

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Annex 1: Social Taxonomy

Articulating and setting social objectives

The social taxonomy differentiate three type of stakeholders: workers, end-users and communities

- The most convincing way to articulate the objectives of a social taxonomy is setting out the type of stakeholders that different economic activities can affect. Stakeholders affected by business activities include:

An entity's own workforce (including value-chain workers)

End-users or consumers

Affected communities (directly or through the value chain)

- A future social taxonomy should be focused around these **three groups of stakeholders** to whose lives and livelihoods economic activities can make a positive contribution.
- With this stakeholder-centric approach in mind, the social topics covered by the referential norms and principles can be linked to **stakeholder groups**:

Social topics in scope of social taxonomy	Stakeholder group
Labor rights and working conditions	Workers
Social protection and inclusion	Workers, communities and societies
Non-discrimination	Workers, communities and societies
The right to health care, housing, education (including professional training) and food	End-users, communities and societies
Assistance in the event of unemployment, self-employment, and old age	Workers
Consumer protection including data protection	End-users
Peaceful and inclusive societies	Communities and societies
Fighting corruption and tax evasion	Societies

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Global context

Cross regulatory trends

Financial Regulatory trends

Why MS?

Annex

- *Social Taxonomy*
- *Environmental Taxonomy*
- *TNFD Framework*
- *ISSB Sustainability-related and climate - related disclosure requirements*
- *Corporate Sustainability Reporting Directive*
- *New rules on Climate-related disclosures*
- *Corporate Sustainability Due Diligence Directive*
- *Supervisory expectations*
- *ECB Supervisory Priorities*
- *Draft Guidelines on the management of ESG risks*
- *Methodology for a Climate risk stress test*
- *Pillar 3 Climate*
- *Pillar 3 ESG*
- *Enhancement and Standardization of Climate-Related Disclosures for Investors*

A | Annex 2: Environmental Taxonomy
Economic sectors and activities

Since the publication of the Taxonomy Regulation in 2020, the first two objectives and the methodology for disclosing information in accordance with them have been developed, including different disclosure dates.
The Draft Environmental DA develops the environmental objectives and their defines their application and disclosure dates

2020

March 2020

Final report of the EU TEG on the taxonomy of sustainable activities

June 2020

EU Taxonomy Regulation 2020/852

2021

December 2021

Taxonomy Climate DA: Objectives 1&2 – Sustainability Definition

Taxonomy Disclosure DA: Objectives 1&2 – Methodology

December 2021

EC Report on a possible extension **of the EU Taxonomy Regulation** to include social, neutral and brown activities

EC FAQ Guidance on:
1) Taxonomy-eligible reporting
2) Comprehension and Reading of Article 8DA

2022

1st January 2022 – EU Taxonomy

Non-financial undertakings: proportion of eligible and non - eligible economic activities in their total turnover, Capex and Opex.

Objectives 1&2

Financial undertakings: proportion of their total assets of exposures to eligible and non-eligible economic activities- Objectives 1&2 (**Simplified GAR*)***

2023

1st January 2023 - EU Taxonomy ★

Non-financial undertaking: KPIs of alignment with the EU Taxonomy: Turnover, Capex and Opex Objectives 1&2

Financial undertakings: proportion of their total assets of exposures to eligible and non-eligible economic activities- Objectives 1&2 (**Simplified GAR*)***

January 2023
CSRD (review of NFRD) enters into force

April-May 2023

Consultation on New EU Taxonomy disclosures
(scope of this technical note)

1st January 2024 – EU Taxonomy ★

Financial firms shall disclose alignment KPIs, mainly GAR (**Full GAR)**

Objectives 1&2

2024

1st January 2024 ★

- **New EU Taxonomy disclosures**

Financial undertakings shall only disclose the proportion in their covered assets of exposures to eligible and non-eligible economic activities (**Simplified GAR)**

Non-financial undertakings shall only disclose the proportion of eligible and non-eligible economic activities in their total turnover, Capex and Opex and qualitative information

New activities for objectives 1&2 and objectives 3,4,5,6

- **First reference date of disclosure of sustainability report under CSRD**
(by this date only entities already subject to NFRD)

2025

1st January 2025 - New EU Taxonomy disclosures ★

Publication by **non-financial undertakings** of their KPIs[1] of alignment with the EU Taxonomy: Turnover, Capex and Opex

New activities for objectives 1&2 and objectives 3,4,5,6

2026

1st January 2026 - New EU Taxonomy disclosures ★

Financial undertakings shall disclose KPIs[1] of alignment, mainly GAR (**Full GAR*)***

New activities for objectives 1&2 and objectives 3,4,5,6

New disclosure dates under consultation added to the Taxonomy Disclosure DA

Publication date
Application and disclosure date ★

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In April 2023 the EC launched a consultation period on the Draft Environmental DA which contains a new set of TSC and DNSH for Objectives 3-6. Additionally, the EC is also consulting on proposed amendments to the DAs on Objectives 1-2

1-. Regulatory context

- **June 2020** Publication of the European Taxonomy Regu n
- **December 2021** Publication of the Taxonomy Climate Delegated Act & the Taxonomy Disclosures Delegated Act are published by the EC.
- **March 2022** Publication of the advice on the TSC on remining four environmental objectives by the PFS, to assist the EC on the elaboration of the second delegated act
- **April 2023** Publication of the **draft Environmental Delegated Act**

2-. Next steps

- Final draft publication (date not yet set)
- Enter into force from **1 January 2024** (application date).

3- Subject matter of the documents

1. Draft Environmental DA (including amendments to the Disclosures DA):

Main document | Annexes: TSC and DNSH criteria for Ob.3-6: 3 4 5 6

- TSC under **which economic activities** in the sectors qualify as **contributing substantially to the Objectives 3-6** (non-climate environmental objectives)[1].
- TSC for determining whether those **economic activities DNSH** to any of the other environmental objectives.
- Additional **disclosure dates added** for disclosing eligible and aligned activities. (considering the new activities added for the climate and environmental objectives)

2. Amendments to the Climate DA[2]:

Main document | Annexes: TSC and DNSH criteria for Ob.1-2: 1 2

Objective 1: Climate change mitigation	**New activities** included within the **manufacturing** and the **transport sector**[1].
Objective 2: Climate change adaptation	**New activities** included within the **water supply, construction, information & communication,and the profesional sector**[1].
	Disaster risk management sector added and **activities** within it [1].

(1) In Annex 3, a mapping between new sectors and/or activities developed for objectives 1-6 is provided.
(2) In addition to the new activities added, specific aspects of existing activities have been amended (out of the scope of this document).

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The Draft Environmental DA adds new disclosure dates in the Taxonomy Disclosures DA for the new objectives and activities developed

What to report?

This Delegated Act adds new disclosure dates for the new objectives and activities to the **Taxonomy Disclosures Delegated Act** (see also the annexes V, VI y VII)

When?

- From 1 January 2024 until 31 December 2024, non-financial companies shall only disclose:
  - The proportion of **Taxonomy eligible[1] and Taxonomy non-eligible economic activities** pursuant to Taxonomy Environmental Delegated Regulation
  - **The new activities added to the Climate Delegated Act** in their total turnover, capital and operational expenditure and the qualitative information relevant for that disclosure.
- From 1 January 2024 until 31 December 2024, financial companies shall only disclose:
  - The **proportion in their covered assets of exposures to Taxonomy non-eligible and Taxonomy-eligible economic activities** pursuant to Taxonomy Environmental Delegated Regulation and **the new activities added to the Climate Delegated Act.**
  - The **qualitative information** on qualitative disclosures for asset managers, credit institutions, investment firms and insurance and reinsurance undertakings for these activities
- From 1 January 2025 the KPIs[3] of non-financial companies shall cover the economic activities set out in Taxonomy Environmental Delegated Regulation and the activities added to the Climate Delegated Act (aligned[2]).
- From 1 January 2026 the KPIs[3] of financial companies shall cover the economic activities set out in Taxonomy Environmental Delegated Regulation and the activities added to the Climate Delegated Act (aligned).

Who shall report?

The scope of application of the disclosure obligations has not been modified and continue applying to the **NFRD companies**.

(1) Taxonomy elegible: Economic activity that is **described in the EU Taxonomy regardless** of whether the economic activity also **fulfils all specified Criteria.**
(2) Taxonomy aligned: **Eligible activity that meets the criateria** to be considered as environmentally sustainable. To this regard, it needs to fulfil with: **TSC, DNSH and MSS**
(3) KPIs for financial and non-financial companies have been modified in order to consider the new activities in its calculation. Details on this amendments are developed in the Annexes of the Draft Amendments to the DA:

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A Annex 2: Environmental Taxonomy

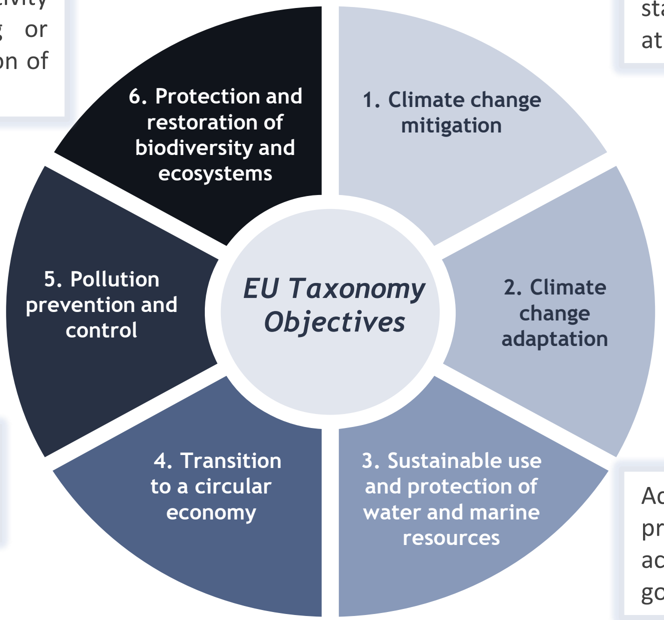
Economic sectors and activities

The European Environmental Taxonomy is structured around six environmental objectives to determine whether an activity is considered sustainable, based on its contribution to achieving them. So far, only the criteria of substantial contribution have been developed for the first two environmental objectives

Activities that contribute to the protection and restoration of biodiversity and ecosystems where that activity contributes substantially to protecting, conserving or restoring biodiversity or to achieving the good condition of ecosystems

Activities that contribute to pollution prevention and control where that activity contributes substantially to environmental protection.

Activities that contribute to the transition to a circular economy, including waste prevention, re-use and recycling



Activities that contribute substantially to the stabilisation of greenhouse gas concentrations in the atmosphere. Applicable from 1st January 2022

Activities that include or provide adaptation solutions that either substantially reduce the risk of the adverse impact of the current and future climate change impacts. Applicable from 1st January 2022

Activities that contribute to the sustainable use and protection of water and marine resources where that activity either contributes substantially to achieving the good status of bodies of water

Objectives developed in 2022

Objectives under development

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Annex 2: Environmental Taxonomy

Economic sectors and activities

Some annexes of the draft Environmental DA and the Draft amending the Climate DA describe the TSC and the DNSH criteria of the new sector and/or economic activities added. Only a few sectors and activities have been developed for various objectives

New sectors and/or activities developed for objectives 1-6	1	2	3	4	5	6
Manufacturing						
○ Manufacture of automotive and mobility components	✓					
○ Manufacture of rail constituents	✓					
○ Manufacture, installation, and servicing of high, medium and low voltage electrical equipment for electrical transmission and distribution that result in or enable a substantial contribution to climate change mitigation	✓					
○ Manufacturing of aircraft	✓					
○ Manufacture, installation & associated services for leakage control technologies enabling leakage reduction & prevention in water supply systems			✓			
○ Manufacture of plastic packaging goods				✓		
○ Manufacture of electrical and electronic equipment				✓		
○ Manufacture of active pharmaceutical ingredients (API) or drug substances					✓	
○ Manufacture of pharmaceutical products					✓	
Environmental protection & restoration activities						
○ Conservation, including restoration, of habitats, ecosystems and species						✓
Professional, scientific and technical activities						
○ Consultancy for climate risk management		✓				

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Annex 2: Environmental Taxonomy
Economic sectors and activities

Some annexes of the draft Environmental DA and the Draft amending the Climate DA describe the TSC and the DNSH criteria of the new sector and/or economic activities added. Only a few sectors and activities have been developed for various objectives

New sectors and/or activities developed for objectives 1-6	1	2	3	4	5	6
Transport						
o Leasing of aircraft	✓					
o Passenger and freight air transport	✓					
o Air transport ground handling operations	✓					
Disaster risk management						
o Emergency Services		✓				
o Flood risk prevention and protection infrastructure		✓				
o Nature-based solutions for flood and drought risk prevention and protection			✓			
Construction & real estate activities						
o Construction of new buildings	(1) ✓	(1) ✓		✓		
o Renovation of existing buildings	(1) ✓	(1) ✓		✓		
o Demolition & wrecking of buildings & other structures				✓		
o Maintenance of roads & motorways				✓		
o Use of concrete in civil engineering				✓		

(1) Activities allready included in the Taxonomy Climate Delegated Acts

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Some annexes of the draft Environmental DA and the Draft amending the Climate DA describe the TSC and the DNSH criteria of the new sector and/or economic activities added. Only a few sectors and activities have been developed for various objectives

New sectors and/or activities developed for objectives 1-6	1	2	3	4	5	6
o Civil engineering		✓				
Water supply, sewerage, waste management & remediation activities						
o Desanilisation		✓				
o Water supply			✓			
o Urban Waste-Water Treatment			✓			
o Sustainable urban drainage systems (SUDS)			✓			
o Collection & transport of non-hazardous and hazardous waste	(1)	(1)		(1) ✓		
o Collection and transport of hazardous waste					✓	
o Treatment of hazardous waste				✓	✓	
o Phosphorus recovery from waste-water				✓		
o Production of alternative water resources for purposes other than human consumption				✓		
o Recovery of bio-waste by anaerobic digestion or composting				✓		
o Depollution & dismantling of end-of-life products				✓		
o Sorting and material recovery of non-hazardous waste	(2)	(2)		(2) ✓		

(1) Different from the activity "Material recovery from non-hazardous waste" developed for objectives 1&2
(2) Different from the activity "Collection and transport of non-hazardous waste in source segregated fractions" developed for objectives 1&2

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Annex 2: Environmental Taxonomy

Economic sectors and activities

Some annexes of the draft Environmental DA and the Draft amending the Climate DA describe the TSC and the DNSH criteria of the new sector and/or economic activities added. Only a few sectors and activities have been developed for various objectives

New sectors and/or activities developed for objectives 1-6	1	2	3	4	5	6
○ Remediation of legally non-conforming landfills & abandoned or illegal waste dumps					✓	
○ Remediation of contaminated sites & areas					✓	
Accommodation activities						
○ Hotels, holiday, camping grounds and similar accommodation						✓
Information & communication						
○ Software enabling climate risk management		✓				
○ Provision of IT/OT data-driven solutions for leakage reduction			✓			
○ Provision of IT/OT data-driven solutions and software				✓		

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Annex 2: Environmental Taxonomy

Economic sectors and activities

Some annexes of the draft Environmental DA and the Draft amending the Climate DA describe the TSC and the DNSH criteria of the new sector and/or economic activities added. Only a few sectors and activities have been developed for various objectives

New sectors and/or activities developed for objectives 1-6	1	2	3	4	5	6
Services						
o Repair, refurbishment & remanufacturing				✓		
o Sale of spare parts				✓		
o Preparation for re-use of end-of-life products & product components				✓		
o Sale of second-hand goods				✓		
o Product-as-a-service & other circular use- & result-oriented service models				✓		
o Marketplace for the trade of second-hand goods for reuse				✓		

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1. *Social Taxonomy*
2. *Environmental Taxonomy*
3. *TNFD Framework*
4. *ISSB Sustainability-related and climate - related disclosure requirements*
5. *Corporate Sustainability Reporting Directive*
6. *New rules on Climate-related disclosures*
7. *Corporate Sustainability Due Diligence Directive*
8. *Supervisory expectations*
9. *ECB Supervisory Priorities*
10. *Draft Guidelines on the management of ESG risks*
11. *Methodology for a Climate risk stress test*
12. *Pillar 3 Climate*
13. *Pillar 3 ESG*
14. *Enhancement and Standardization of Climate-Related Disclosures for Investors*

Annex 3: TNFD Framework
International ESG standards

A number of organizations are already directly or indirectly part of the global environmental disclosure platform. Over the past few years, regulators, supervisors and international institutions have been developing regulations and standards* with the aim of increasing transparency related to sustainability and climate risks. This plethora of standards requires complex analysis to determine how they complement each other and how to apply them to companies and financial institutions. The current picture as of 2023 is as follows:

TNFD

Influences

Based on TCFD standards and aligned with the new global baseline for sustainability standards currently being developed by the ISSB.

TCFD

Influences

ISSB launched a consultation on its first two proposed standards in March 2022. The draft requirements are based on TCFD recommendations.

ISSB

IFRS®

Consolidates

In 2022, the Value Reporting Foundation and the CDSB merged into the IFRS Foundation.

Complements

GRI and ISSB are working together to develop a Memorandum that seeks to coordinate work programmes and standard-setting activities.

GRI Empowering Sustainable Decisions

CDP DRIVING SUSTAINABLE ECONOMIES

Establishes

They work together to provide a comprehensive, reliable and verified climate disclosure system. CPD is represented on the CDSB Board and the CDSB's Technical Working Group.

CDSB

SUSTAINABILITY ACCOUNTING STANDARDS BOARD SASB

Consolidates

On 9 June 2021 SASB and IR announced their merger to form the Value Reporting Foundation.

IR

Examples of regulations that incorporate these standards include: **Taxonomy, SFDR, EBA ESG Pillar 3 , CSRD or SFDR.**

*For further information on the regulations and standards developed see Annex 1

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Annex 3: TNFD Framework
Objectives, scope and timeframe of the TNFD framework

The Task Force on Nature-related Financial Disclosures (TNFD) was founded in 2021 in response to a growing need for nature to be taken into account in financial and business decisions. Its mission is to develop a risk management and disclosure framework for organizations of all sizes across industries and jurisdictions to report on nature-related risks and opportunities. It seeks to work towards an integrated climate-nature scenario to inform sustainability decision-making.

Objectives

- Helps drive alignment with the emerging global reporting baseline under development by the **International Sustainability Standards Board** and best practice standards and tools already in use by market participants today.
- Provides **adaptability and flexibility** regarding the approach to materiality to accommodate the preferences and regulatory requirements of report preparers and report users from organizations of all sizes across all jurisdictions.
- Encourages early action by companies and financial institutions to begin **reporting nature-related dependencies, impacts, risks and opportunities.**
- Provides a structured path to **increase the ambition for** nature-related information **disclosure.**

Scope of application

- Companies and financial institutions of all sizes across industries and value chains.

2022 — 2023

- **Publication of v0.1** — 15/03/2022
- **Publication of v0.2** — 28/06/2022
- **Publication of v0.3** — 04/11/2022 — Access to document
- **Publication of v0.4** — 02/2023 — Access to document
- **Publication of v1** — 09/2023 — Access to document

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Annex 3: TNFD Framework
Main components

The TNFD aims to create a risk management and disclosure framework that organizations of all sizes across jurisdictions can use to identify, assess, manage and disclose nature-related dependencies, impacts, risks and opportunities. According to the latest version published, the TNFD framework will be divided into five main components:

Basics for understanding nature

Fundamental concepts and definitions recommended by TNFD to understand nature.

TNFD recommendations and guidance

Same four pillars as in the TCFD recommendations: governance, strategy, risk management, and metrics and targets.

Nature-related dependencies, impacts, risks and opportunities

Different categories of metrics: i) a small set of core metrics that apply to all sectors to be disclosed on a comply or explain basis; and ii) a larger set of additional metrics, which are recommended for disclosure, where relevant, to best represent an organisation's material nature-related issues, based on their specific circumstances.

LEAP approach

Integrated approach for the assessment and management of nature-related issues and involves four phases of assessment: i) locate; ii) evaluate; iii) assess; iv) prepare

Specific guidelines

Focus on: i) sector guidance; ii) biome guidance; iii) scenario analysis guidance; and iv) Guidance on engagement of Indigenous Peoples, Local Communities & affected stakeholders

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Annex 3: TNFD Framework
Basics for understanding nature

Measuring nature-related risks is a highly significant activity. TNFD has therefore developed a risk taxonomy to identify and classify nature-related risks in a simpler way.

Physical risks

- Physical risks are the direct result of an organization's dependencies on nature.

Acute risks

Chronic risks

Transition risks

- Transition risks are those arising from economic transformation and any changes needed to drastically reduce, and ultimately eliminate, net greenhouse gas emissions to achieve net zero emissions.

Policy

Market risk

IT risk

Reputational risk

Liability risk

Systemic risks

- These are risks that can be considered systemic due to their spread and multifaceted nature.

Ecosystem stability risk

Financial stability risk

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TNFD outreach recommendations

TNFD's new disclosure recommendations have been aligned with those issued by TCFD in an effort to facilitate and promote a transition towards integrated disclosure.

Governance

Recommendations on how organizations should govern nature-related dependencies, impacts, opportunities and risks.

Strategy

Recommendations for disclosing nature-related dependencies, impacts, risks and opportunities on **business, strategy and financial planning.**

Risk and impact management

Recommended disclosures on how an organization describes the processes used to **identify, assess, prioritise, and monitor nature-related dependencies, impacts,** opportunities and risks.

Metrics and targets

Disclosing the **metrics and targets** the organization has used to **assess and manage nature-related dependencies, impacts,** risks and opportunities.

Minor amendments to the definitions on strategy, risk and impact management and metrics and targets vs V.04

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TNFD outreach recommendations

TNFD's new disclosure recommendations have been aligned with those issued by TCFD in an effort to facilitate and promote a transition towards integrated disclosure

	Recommended disclosures			
Governance	A. Describe the board's oversight of nature-related dependencies, impacts, risks and opportunities.	B. Describe management's role in assessing and managing nature-related dependencies, impacts, risks and opportunities	C. Describe the organisation's human rights policies and engagement activities, and oversight by the board and management, with respect to Indigenous Peoples, Local Communities, affected and other stakeholders, in the organisation's assessment of, and response to, nature-related dependencies, impacts, risks and opportunities.	
Strategy	A. Describe the nature-related dependencies, impacts, risks and opportunities the organisation has identified over the short, medium and long term .	B. Describe the effect nature-related dependencies, impacts, risks and opportunities have had on the organisation's business model, value chain, strategy and financial planning, as well as any transition plans or analysis in place.	C. Describe the resilience of The organisation's strategy to nature-related risks and opportunities, taking into consideration different scenarios	D. Disclose the locations of assets and/or activities in the organisation's direct operations and, where possible, upstream and downstream value chain(s) that meet the criteria for priority locations.
Risk and Impact management[1]	A(i) Describe the organisation's processes for identifying, assessing and prioritising nature-related dependencies, impacts, risks and opportunities in its direct operations.	A(ii) Describe the organisation's processes for identifying, assessing and prioritising nature-related dependencies, impacts, risks and opportunities in its upstream and downstream value chain(s)	B. Describe the organisation's processes for managing nature-related dependencies, impacts, risks and opportunities .	C. Describe how processes for identifying, assessing, prioritising and monitoring nature-related risks are integrated into and inform the organisation's overall risk management processes.
Metrics and targets	A. Disclose the metrics used by the organisation to assess and manage material nature-related risks and opportunities in line with its strategy and risk management process	B. Disclose the metrics used by the organisation to assess and manage dependencies and impacts on nature .	C. Describe the targets and goals used by the organisation to manage nature-related dependencies, impacts, risks and opportunities and its performance against these.	

1. Recommendation D "Describe how affected stakeholders are engaged by the organisation in its assessment of, and response to, nature-related dependencies, impacts, risks and opportunities" was deleted in the final version of the standard.

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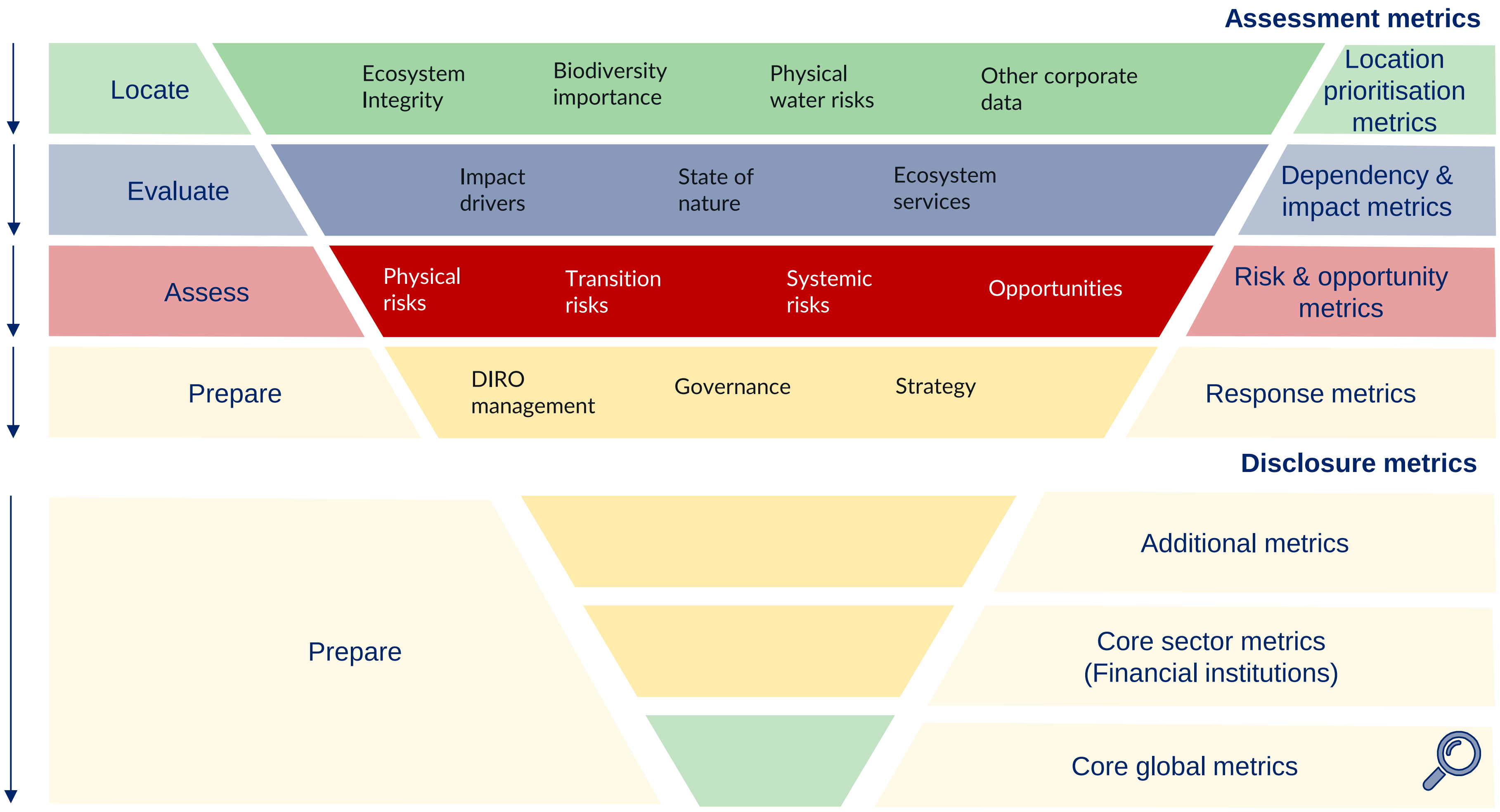
Annex 3: TNFD Framework
Nature-related dependencias, impacts, risks and opportunities

There are **disclosure metrics** that encompass the reporting and presentation processes (under prepare phase).
The rest of the actions are included in the **assessment metrics group.** Also, TNFD's disclosure metrics approach includes 'core global metrics' that apply to all sectors and 'core sector metrics' for each sector to be disclosed on a comply or explain basis.



Indicators and metrics

Indicator: Extent of ocean use change	**Metric**:use change (km2) by type of ecosystem and business activity
Indicator: Wastewater discharged	**Metric**:Volume of wastewater (m3) and concentration of key pollutants (mg/litre) – Total
Indicator: High-risk natural commodities sourced from land	**Metric**:Quantity (tonnes) of high risk Natural commodities sourced form land, by commodity

TNFD metrics architecture – page 64
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Annex 3: TNFD Framework

LEAP approach: methodology and main lines of action

The LEAP approach consists of four main phases after an initial exploration of the organization's priorities: **Locate, Evaluate, Assess and Prepare**.

L.1.- Span of the business model and value chain

L.2.- Dependency and impact screening

L.3.- Interface with nature

L.4.- Interface with sensitive locations

E.1.- ID of environmental assets, ecosystem services and impact drivers

E.2.- ID of dependencies and impacts

E.3.- Dependency and impact measurement

E.4.- Impact materiality assesment

P.1.- Strategy and resource allocation

P.2.- Target setting and performance management

P.3.- Reporting

P.4.- Presentation

A.1.- Risk and opportunity ID

A.2.- Adjustment of existing risk mitigation and risk opportunity management

A.3.- Risk and opportunity measurement and prioritisation

A.4.- Risk and opportunity materiality assessment

Sifnificant amendments to the LEAP framework with respect V.04

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LEAP approach: assessment

The assessment should be based on a quick, high-level, preliminary scan of internal and external data and reference sources to generate a hypothesis about the organisation's potential nature-related dependencies, impacts, risks and opportunities; and a determination of where likely skills and data gaps lie and how those gaps will be addressed to complete the scoped assessment successfully

1 Generate a working hypothesis

What are the organisation's business processes and activities where there are likely to be material nature-related dependencies, impacts, risks and opportunities?

1.1 Identify assets and activities in direct operations and value chains
1.2 Identify where nature-related issues might exist across the business model and value chain

Supporting questions

- Does the organisation (and the assessment team) have a foundational understanding of nature-related dependencies, impacts, risks and opportunities?
- What activities and/or assets are in the organisation's upstream and downstream value chains?
- In which sectors, value chains and/or geographies does the organisation have a presence?
- How much revenue, expenditure or earnings is associated with each of these activities and assets? By sector, value chain and/or geography?

2 Aligning on goals and resourcing

Given the current level of capacity, skills and data within the organisation and given organisational goals, what are the resource (financial, human and data) considerations and time allocations required and agreed for undertaking an assessment?

2.1 Define goals and expected outcomes
2.2 Approach to materiality
2.3 Time horizons for the assessment
2.4 Evaluation of Knowledge, capacity, data

Supporting questions

- What are the organisation's goals and expected outcomes from a LEAP assessment?
- What is the organisation's approach to materiality? Who are the key stakeholders for TNFD-aligned corporate reporting and what information will be material to them?
- What level of assessment is feasible or appropriate at this time given the complexity of the organisation's value chain? Should it be by product, process, input, business unit or site?
- What are the baselines and time periods for the analysis?
- What are the current limitations and/or constraints of the assessment? For example, skills, data,
- Where is it appropriate to place the boundaries around an analysis? What are the relevant business activities, sectors, geographies and biomes?

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Annex 3: TNFD Framework
Specific guidelines

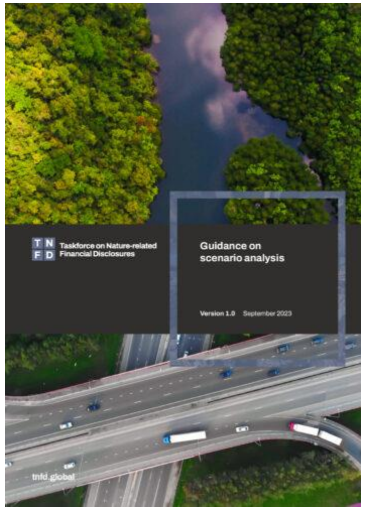
TNFD has produced a set of additional guidance to support organisations in identifying, assessing, managing and disclosing their nature-related dependencies, impacts, risks and opportunities. These documents provide guidance but are not compulsory

Sector guidance

Additional guidance to apply the TNFD Recommendations applies to banks, insurance companies, asset managers and owners, and development finance institutions.

Scenario analysis

Guidance to support identification, assessment and disclosure of nature-related dependencies, impacts, risks and opportunities in specific types of ecosystem



Biome guidance

Guidance for organisations who choose to use scenario analysis to explore the possible consequences of nature loss and climate change.

Guidance on engagement of Indigenous People, Local Communities

Guidance for meaningful engagement with local communities that outlines the foundation of international standards, guidelines and frameworks.

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International ESG standards

ESG data transparency is an essential pillar for advancing sustainability. This is why in recent years we have seen the emergence of multiple international standards and initiatives that promote environmental, social and governance transparency as well as the disclosure of non-financial information.

Global Reporting Initiative Standards
- An organization aiming to develop the first regulatory framework that will ensure companies adhere to environmental, social, economic and governance principles.

Integrated Reporting Framework
- Published by the International Integrated Reporting Council (IIRC) to provide a framework for organizations to report on issues such as their environment, business model, strategy, performance and future prospects in an integrated way.

Value Reporting Foundation
- Offers a comprehensive set of resources designed to help organizations and investors develop a shared understanding of business value.

Climate Disclosure Standards Board
- Aims to advance and align the corporate reporting model globally to bring natural capital in line with financial capital.

Taskforce on Nature-related Financial Disclosures*
- A global initiative that seeks to provide a risk management and disclosure framework for organizations to report on evolving risks and opportunities related to nature.

International Sustainability Standard Board
- Seeks to establish a global baseline of sustainability reporting standards that will provide investors and other financial market participants with information on companies' sustainability risks and opportunities.

International Financial Reporting Standard
- A not-for-profit public interest organization established to develop high quality, understandable, applicable and globally accepted sustainability accounting and disclosure standards.

Sustainability Accounting Standards Board
- Its mission is to establish and improve specific disclosure standards in relation to environmental, social and governance issues of financial significance.

Carbon Disclosure Project
- An international organization that helps investors, companies, cities, states and regions disclose their environmental impact.

Taskforce on Climate-related Financial Disclosures
- Sets the global standard for the identification, analysis and disclosure of information related to climate risks and their financial impact.

* These proposed additional disclosures are in addition to those in the TCFD guidance, with a view to encouraging further movement towards integrated sustainability (TCFD+TNFD).

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13. *Pillar 3 ESG*
14. *Enhancement and Standardization of Climate-Related Disclosures for Investors*

A

Annex 4: ISSB sustainability disclosure standards

Regulatory Context

In June 2023, the ISSB published the official version of the sustainability disclosure standards (S1 on general requirements for sustainability-related financial disclosures and S2 on climate disclosures) with the aim of creating a global framework to ensure that companies provide sustainability-related information alongside financial statements.

ISSB

➔ The **main objective of** this new IFRS Foundation body is to **develop high quality corporate sustainability disclosure standards that are widely accepted globally.**

➔ The creation of the ISSB and the issuance of the Sustainability IFRS **is a response to the need to address certain current concerns in the financial markets:**

a. **Addressing climate and sustainability related impacts.**

a. **Tailoring ESG reporting to the needs of investors** and capital markets, focusing on their specific requirements.

➔ IFRS S1 and S2 fully incorporate the TCFD recommendations. Therefore, from 2024 onwards, the **IFRS Foundation will assume the responsibilities of the TCFD.**

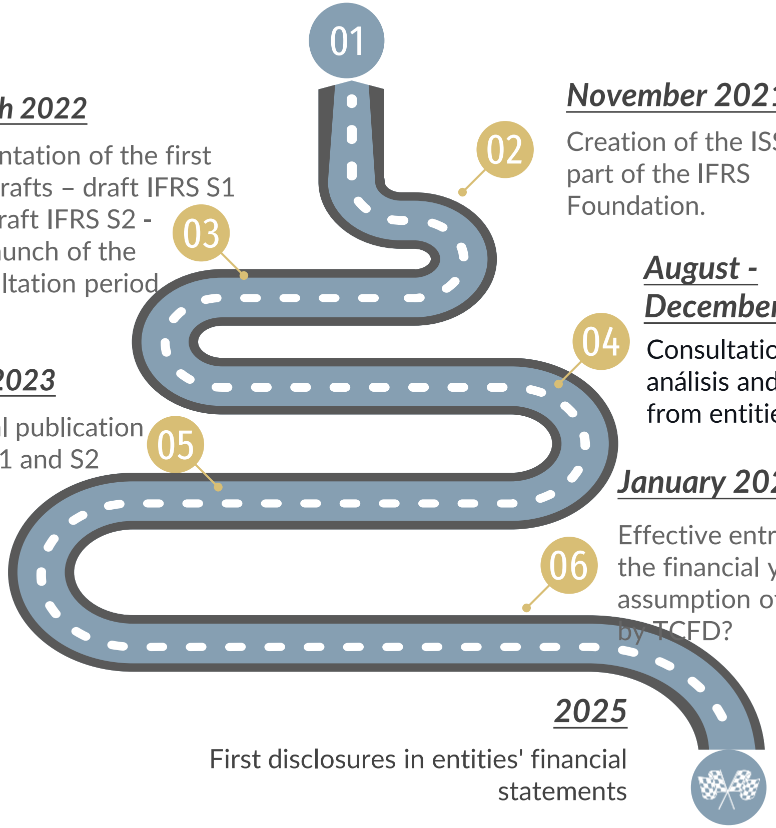
Two new standards

➔ **In June 2023, the ISSB presented its first two IFRS standards,** marking a significant milestone towards the standardisation of ESG criteria in financial reporting. To achieve this, it has built on already recognised frameworks, such as the TCFD.

IFRS S1*	General requirements for sustainability-related financial disclosures
***IFRS S2**[1]*	Dissemination of climate-related information

➔ IFRS S1 and IFRS S2 are **effective for annual periods beginning on or after 1 January 2024,** which means that investors will start to see information in 2025.

Regulatory roadmap



*These standards are accompanied by guidelines illustrating certain aspects of the standards. For IFRS 2, industry guidelines have also been developed to suggest possible ways of applying some of the disclosure requirements of IFRS S2.

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Annex 4: ISSB sustainability disclosure standards

Executive Summary

The first standard (IFRS S1) refers to sustainability-related disclosures while the second standard (IFRS S2) focuses on climate-related disclosures

	Target	General content *	Location	Reporting period
IFRS S1	• Provide a framework of general principles to communicate in a clear and transparent manner relevant information on the significant sustainability-related risks and opportunities faced by entities in the short, medium and long term. • Enable investors to properly assess the value of organisations.	• Four general pillars on which information should be disclosed: o Governance o Strategy o Risk management o Objectives and metrics • Four blocks of general disclosure requirements. • Four premises when reporting information: fair presentation, materiality, reporting and connected information.	• Entities should provide sustainability information as part of their overall financial reporting. However, at this stage, where these disclosures should be presented has not yet been defined in the standards; it is left open for each jurisdiction to define.	First reference date: Reporting for financial years starting on or after 1 January 2024. • For the first financial year, sustainability-related information is allowed to be disclosed after the financial statements have been published. However, in applying this exemption, entities are given three different timing options for reporting their sustainability-related information.
IFRS S2	• Provide a framework for disclosing information about a company's exposure to significant climate-related risks and opportunities, enabling key stakeholders to assess the impact on the company's financial position, results, cash flows, strategy, business model and value.	• Four general pillars on which information should be disclosed: o Governance o Strategy o Risk management o Objectives and metrics		• Also, the following exemptions may be applied in the first annual exercise: o Maintain the method used for GHG measurement (if different from the "GHG Protocol" methodology) if it was used before implementing the standard. o Scope 3 issues are not required to be disclosed if the entity is involved in asset management, commercial banking or insurance.

*Although there is no requirement for the reported information to be certified by third parties, it is recommended that the content of the disclosures ~~disclosed standards~~ be audited to enhance their quality and reliability. In addition, the IFRS Foundation is working with the IAASB to address this important issue.

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A | Annex 4: ISSB sustainability disclosure standards

S1 Detail

IFRS S1 requires entities to disclose material information about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

MAIN CONTENT TO BE DISCLOSED

1 Governance

- ➔ The governing bodies responsible for oversight of sustainability-related risks and opportunities.
- ➔ The role of management in governance control and oversight processes.

2 Strategy

- ➔ Risks and opportunities that may affect performance
- ➔ The current and anticipated effects on the company's business model, value chain and financial position.
- ➔ The effects of the strategy on decision-making.
- ➔ Resilience of the strategy and business model.

3 Management risk

- ➔ Processes and policies used to identify, assess, prioritise and monitor sustainability-related R&O*.
- ➔ The level to which processes and policies are integrated into the company's overall risk management process.

*R&O: Risks and opportunities

4 Metrics and objectives

- ➔ For each risk and opportunity identified, it shall disclose:
  - ◆ Metrics required by the IFRS Sustainability Disclosure Standard.
  - ◆ Metrics used for measuring and monitoring

GENERAL REQUIREMENTS

Sources of guidance	In addition to IFRS S1, the applicability of SASB standards, the CDSB Guidelines for water and biodiversity related reporting, or other general disclosure standards such as European Sustainability Reporting (bESRS) should be considered.
Location of information	Sustainability information shall be presented as part of general financial reporting. Exact location open to each jurisdiction's definition e.g. "management report", "management's analysis report", "operational and financial review", "integrated report" or "strategic report".
Reporting period	The information shall be reported at the same time as, and cover the same time period as, the entity's corresponding financial statements.
Declaration of conformity	An entity shall disclose comparative information in respect of the previous period for all amounts disclosed in the reporting period.

Premises

1 Faithful presentation

- The information reported shall give a true and fair view of the entity´s position.

2 Materiality

- Material information that may affect the entity in the future shall be disclosed.

3 Reporting

- The information reported shall be the same as that included in the financial statements.

4 Connected information

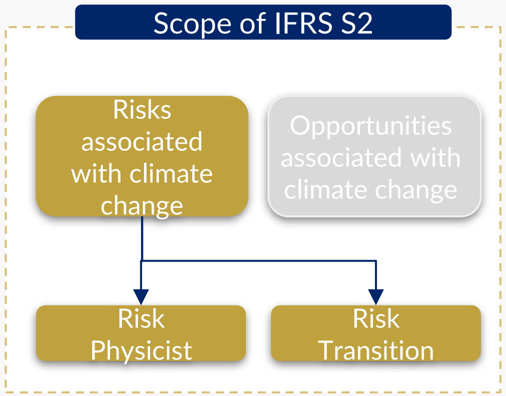
- Users should be able to understand the connection between:
  - Different sustainability-related information items.
  - The different reports of the entity.

Main disclosure requirements | *The disclosure requirements require entities to disclose information about their sustainability-related risks and opportunities that is useful to users of general financial reporting in making decisions related to the provision of resources to the entity.*

Annex 4: ISSB sustainability disclosure standards
S2 Detail

IFRS S2 requires entities to disclose information about climate-related risks and opportunities that may reasonably affect the entity's financial flows, access to funding or cost of capital in the short, medium or long term.

- IFRS S2 is the first IFRS S thematic standard (addressing the "E" of ESG), with a focus on the environment.
- Within "E", it focuses on climate-related risks and opportunities.
- It is based on the four pillars included in IFRS S1: governance, strategy, risk management, and metrics and objectives.
- Its scope can be summarised as shown **in the diagram below.**



MAIN CONTENT TO BE DISCLOSED

1 GOVERNANCE

- The **governing body** or responsible **person** and how responsibilities regarding climate-related R&O are reflected in the **powers and mandates**.
- **Role of management in the governance processes, controls and procedures in place to monitor, manage and oversee climate-related** R&O.

2 STRATEGY

- Climate-related R&O* that can reasonably be expected to affect an entity's prospects
- The current and expected impacts of these climate-related R&O on the **business model and the value chain.**
- The effects of these climate-related R&O on **strategy and decision making**
- The impact of these climate-related R&O on the **financial situation**

*R&O: Risks and opportunities

3 RISK MANAGEMENT

- The **processes** and related **policies** that the entity uses to identify, assess, prioritise and monitor climate-related **risks.**
- The **processes** the entity uses to **identify**, **assess**, **prioritise** and **monitor** climate-related **opportunities,**
- The extent to which and the way in which processes for **identifying**, **assessing**, **prioritising** and **monitoring** climate-related R&O are **integrated into risk management.**

4 METRICS AND TARGETS

- **Cross-sectoral metrics** (e.g., scope 1,2,3 GHG emissions, number and percentage of assets or business activities vulnerable to climate-related physical or transitional risks).
- **Sectoral metrics** associated with particular business models, activities or other common features that characterise participation in a sector.
- **Targets** set by the entity, and any targets it is required to meet, to mitigate or adapt to climate-related risks or take advantage of climate-related opportunities.

In addition, IFRS S2 includes implementation guidance on the following concepts:

Climate Resilience	*Greenhouse Gases (GHG)*	*Categories of cross-sectoral metrics*	*Climate-related objectives*

Annex 4: ISSB sustainability disclosure standards
Financial Sector Guides

The financial sector specific guidance lists the functional blocks to be addressed and the corresponding metrics to be disclosed by the financial institution.

	Functional blocks	Metrics
Asset management	Incorporating environmental, social and governance factors into investment management and advice	• Number of assets under management per asset class, using ESG and sustainability integration. • Description of the approach to incorporating ESG factors into investment or wealth management processes and strategies. • Description of proxy voting and shareholding policies/proxy voting procedures of investees.
Commercial banking	Incorporating environmental, social and governance factors into credit analysis	• Description of the approach to incorporating ESG factors into credit analysis.
Insurance	Incorporating environmental, social and governance factors into investment management	• Description of the approach used to incorporate ESG factors into investment management processes and strategies.
Insurance	Policies designed to encourage responsible behaviour	• Net premiums written related to energy efficiency and low carbon emissions. • Analysis of products that encourage health, safety or responsible actions or behaviour.
Insurance	Exposure to physical risk	• Maximum Probable Loss of insured products due to natural catastrophes. • Total amount of monetary losses attributable to modelled and non-modelled natural catastrophe insurance claims, by type of event and geographical segment. • Description of the approach to incorporating environmental risks into the individual contract underwriting process and risk management at entity level.
Investment banking	Mainstreaming environmental, social and governance factors into investment banking	• Revenues from underwriting, advisory and securitisation transactions incorporating ESG factors. • Number and total value of investments and loans incorporating ESG factors by sector. • Description of the approach to incorporating ESG factors into banking and intermediation activities.
Mortgages	Environmental risk for mortgaged properties	• Number and value of mortgage loans in flood zones over 100 years. • Total expected loss and loss given default (LGD) attributable to default and delinquency on mortgage loans due to weather-related natural catastrophes, by geographic region. • Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting.

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Annex 4: ISSB sustainability disclosure standards
Financial Sector Guides

Based on the four general pillars on which the information must be disclosed, a series of indicators and sub-indicators are mentioned that must be included in order to comply with the requirements of IFRS S1 and IRFS S2.

IFRS S1

Pillar	Indicators	Sub-indic.
Government	Governing bodies responsible for oversight of sustainability-related R&O.	5
	Management's role in governance control and oversight processes.	2
Strategy	R&O that may affect results	4
	Effects on business model, value chain and financial position	6
	Effects on decision-making	3
	Resilience of strategy and business model	2
Risk management	Processes and related policies to identify, assess, prioritise and monitor R&O,	6
	Extent and manner in which these processes are integrated into, and inform, the entity's overall risk management process.	N/A
Objectives and metrics	Metrics required by an applicable IFRS S1 standard.	Sub-indic.(1): 1
	Metrics used to measure and monitor R&O that could reasonably be expected to affect the entity's prospects and performance in relation to that R&O, including progress against any targets (legally binding or set by the entity).	11

Government — Strategy — Risk management — Objectives and metrics

IFRS S2

Pillar	Indicators	Sub-indic.
Government	Governing bodies responsible for climate-related R&O oversight.	5
	Management's role in governance control and oversight processes.	2
	*Can be merged with IFRS S1	
Strategy	Climatic R&O that may affect the results.	4
	Effects on business model, value chain and financial position	8
	Effects on decision-making (including transition plans).	7
	Resilience of strategy and business model.	6
Risk management	Related processes and policies to identify, assess, prioritise and monitor climate R&O,	7
	Extent and manner in which these processes are integrated into and inform the entity's overall risk management process.	N/A
Objectives and metrics	Relevant information for cross-sector metrics (e.g., Scope 1.2,3 Emissions)	14
	Industry-based metrics (see *Industry-based Guidance on Implementing IFRS S2*).	N/A
	Targets to mitigate or adapt to climate risks or take advantage of opportunities including metrics to measure progress towards these targets.	17

(1) Metrics in this block should include those associated with particular business models, activities or other common features that characterise participation in a sector.

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Annex 5: Corporate Sustainability Reporting Directive

Introduction and context

Corporate Sustainability Reporting Directive (CSRD) mandates companies to report in compliance with EU Sustainability Reporting Standards (ESRS). In November 2022, the EFRAG[1] published its final version of these standards

Oct 2014
Non-Financial Reporting Directive (NFRD)

Jun 2019
Non-binding guidelines to comply with NFRD, incorporating TCFD recomendations[2]

Nov 2019
Sustainable Finance Disclosures Regulation (SFDR)

Jun 2020
Taxonomy Regulation (TR)

Apr 2021
CSRD proposal, mandating EFRAG to develop reporting standards

Jul 2021
EC disclosures Delegated Regulation of TR (Art. 8)

May 2022
ESRS (draft)

Nov 2022
- **CSRD Final version**
- **EFRAG Sector-agnostic ESRS (final)**

June 2023
Adoption of Sector-agnostic Delegated Act (draft)

2024
- Sector-specific and SMEs specific ESRS will be published
- Members States shall brig into force CSRD

2025-2029
Phase in disclosure requirements

CSRD
- **Replaces NFRD**
- **Strengths** the existing **reporting requirements of the NFRD**
- **Extends the scope** of companies which are required to report on sustainability matters.
- Together with **the SFDR and the Taxonomy Regulation,** is a central component of the **sustainability reporting requirements** underpinning the EU's sustainable finance strategy.

ESRS
- **Set out the reporting requirements** on sustainability-related impacts, risks and opportunities under the CSRD
- Aim at ensuring **more comparable and standardized reporting**

(1) EFRAG is a private association established in 2001 with the encouragement of the EC to serve the public interest. EFRAG extended its mission in 2022 following the new role assigned to EFRAG in the CSRD, providing Technical Advice to the EC in the form of fully prepared draft ESRS and/or draft amendments to these Standards.
(2) TCFD recommendations have been compared to the new ESRS in Annex I

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Annex 5: Corporate Sustainability Reporting Directive
CSRD overview – Main updates

CSRD revises and strengthens the existing rules introduced by NFRD in order to ensure that companies report reliable and comparable sustainability information needed by investors and other stakeholders

	NFRD	CSRD
What information **shall be published?**	Information related to: i) Environmental matters ii) Social matters and treatment of employees iii) Respect for human rights iv) Anti-corruption and bribery v) Diversity on company boards	Same information, but with additional mandatory requirements, such as: • **Double Materiality**. • A description of the **GHG[1] reduction targets** at least for **2030 and 2050**, where appropriate • Consideration of **short, medium and long-term** time horizons • Information disclosed in accordance with **TR, Article 8**
Under which **reporting standards**?	• **Voluntary** reporting framework	• **Mandatory New ESRS** (EC Delegated Act expected by **June 2023**).
Who shall publish?	• **Large public-interest companies** (**> 500** employees), i.e. companies listed on EU regulated markets, banks, and insurance companies, as well as those designated by Member States as public-interest entities	• **All large companies** (listed and non-listed on EU regulated markets). • **All listed SMEs**.
Is the **third-party assurance** mandatory?	• No, it is not. Only minimum requirement for the statutory auditors to check whether non-financial information has been provided	• Yes, an **opinion** by the statutory auditor, audit firm or independent verification service provider based on a limited assurance engagement as regards the compliance of the sustainability reporting with the CSRD requirements (assurance standards to be defined by 1 January 2026).
What kind of report/s **and where to disclose**?	• Option for non-financial statements to be included in the **management report** or **in a stand-alone report** (max. 6 months after the balance sheet date).	• Non-financial statement in the **company's management report (**max. 12 months after the balance sheet date). • **Assurance opinion**.
In **what format**?	• Online/PDF.	• Mandatory to be published **in single electronic reporting format** (XHTML).

(1) Green House Gas

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Annex 5: Corporate Sustainability Reporting Directive

CSRD overview – Companies under scope and timeline

CSRD will apply to a broader group of companies, estimated to approximately 50 thousand companies in total[1]. The new rules will be adopted gradually by the companies, starting in 2025 by those that are already subject to the NFRD

CSRD will apply to…

1. **All large companies** (listed or non-listed) that exceed the limits of at least two of the following criteria on the balance sheet date of the parent company:
   1) **total balance sheet of 20 million €**;
   2) **net turnover of 40 million €**;
   3) **average number of employees** during the financial year: **250**.
2. **All listed companies** (including **SMEs**) that exceed the limits of at least two of the following criteria:
   1) **balance sheet total: 350 thousand €;**
   2) **net turnover: 700 thousand €;**
   3) **average number of employees** during the financial year: **10.**
3. **Non - EU companies listed** on EU regulated markets with **>150 million net turnover** in the EU for each of the last two consecutive financial years, if they have at least one subsidiary or branch in the EU that is a large company, and the **EU subsidiaries** of non-EU companies with a net turnover of more than EUR 40 million.

Gradual approach[2]

2025	Companies subject the NFRD
2026	Large companies not subject to NFRD
2027[3]	Listed SMEs, small and non-complex credit institutions and captive insurance companies
2029	Third-country companies

(1) According to the European Commission, the new requirements of CSRD will cover 50 thousand companies: Corporate sustainability reporting (europa.eu)
(2) Years corresponding to the first disclosure, maximum 12 months after the end of the previous financial year.
(3) For a **transitional period of two years**, possibility of opting-out from CSRD reporting requirements, provided they briefly state in their management report why the sustainability information has not been provided.

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Annex 5: Corporate Sustainability Reporting Directive
ESRS – Overview

European Sustainability Reporting Standards consists of 12 sector agnostic standards that cover general and specific requirements on environmental, social and governance topics

ESRS content

Cross-cutting standards[1]		ESRS 1 General requirements ESRS 2 General disclosures
Topical standards	E	ESRS E1 Climate change ESRS E2 Pollution ESRS E3 Water and marine resources ESRS E4 Biodiversity and ecosystems ESRS E5 Resource use and circular economy
	S	ESRS S1 Own workforce ESRS S2 Workers in the value chain ESRS S3 Affected communities ESRS S4 Consumers and end-users
	G	ESRS G1 Business conduct

Reporting areas

All the Disclosure Requirements except ESRS 1 cover the following reporting areas[2]

Governance (GOV): governance processes, controls and procedures used to monitor and manage impacts, risks and opportunities

Strategy (SBM): how the company's strategy and business models interact with its material impacts, risks and opportunities, including the strategy for addressing them

Impact, risk and opportunity management (IRO): the processes by which impacts, risks and opportunities are identified, assessed and managed through policies and actions

Metrics and targets (MT): how the company measures its performance, including progress towards the targets it has set

(1) they apply to all sustainability matters; 2 already recommended by TCFD

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Annex 5: Corporate Sustainability Reporting Directive

ESRS 1 General Requirements Main disclosure requirements

The first section (ESRS 1 – General Requirements) establish the general requirements that companies must comply with when preparing and presenting sustainability-related information

Material information on impacts, risks and opportunities in relation to ESG matters

Impacts, risks and opportunities in relation to ESG matters should be disclosed. The information shall enable the understanding of the **company´s impacts on those** impacts, risks and opportunities and how they affect the companies' **development, performance and position**.

Positive and negative impacts

The companies should **analyze and disclose both positive and negative** sustainable-related impacts.

Sector-agnostic applicable to all companies + *entity specific disclosures* that reflect the unique and specific situation of an entity

There are other two requirements types:

- **Sector-specific disclosure requirements** - applicable to all companies under CSRD/ESRS scope within a sector, currently under implementation.
- **Entity-specific disclosures** – disclosures that are not covered with sufficient granularity, that reflect the unique and specific situation of an entity.

Covering direct and indirect relationships in the *upstream and downstream value chain* (real /estimated)

Material impacts, risks and opportunities related to **direct and indirect relationships** of the company in the **upstream and/or downstream value chain** should be disclosed. If the company is not able to collect the information on upstream and downstream value chain, it should be estimated using sector-average data and other proxies.

Transitional period for the first 3 years
1) entity-specific disclosure;
2) value chain information

Companies may adopt **transitional measures for preparation** of some information: 1) entity-specific disclosure; 2) value chain information (if required information is not available, the company should explain the reasons and plans to obtain it in the future).

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Annex 5: Corporate Sustainability Reporting Directive

ESRS 1 General Requirements Form requirements

When preparing its sustainability statements, the company must apply some requirements related to form of the reports: time horizons, presentation, structure and relation with other reports

Time horizons

- **Reporting period consistent with the financial statements.**
- **Comparative information** must be presented in **respect of the base year.**
- Short-, medium- and long-term for reporting purposes[1]:
  - **short-term**: the period adopted by the undertaking as the reporting period in its financial statements
  - **medium-term:** from the end of the short-term reporting period per above to five years
  - **long-term**: >5 years.

Preparation and presentation

- **Same reporting company** as in financial statements.
- Annual **comparative information** for **all metrics** required
- **Reasonable assumptions and estimates** should be used, including scenario or sensitivity analysis
- The **definition and calculation of metrics**, must **be consistent over time**.
- **Restatements required for material prior period errors**

Structure of statements[2]

- **One single section** of the management report, including the disclosures pursuant to Article 8 of EU Taxonomy Regulation.
- **4 parts: general** information, **environmental** information, **social** information and **governance** information.

Linkages with other reports

References to other reports may be included (e.g. another section of the report, financial statements, corporate governance report, remuneration report, public disclosures under Pillar 3 in the case of institutions and investment firms)

Those disclosures have to meet some criteria: information clearly identified, published at the same time as the management report, same level of assurance, available with the same technical digitalization requirements

(1) If different definitions of medium- or long-term time horizons are required for specific items of disclosure in a topical or sector specific ESRS, the definitions in the [draft] topical or sector specific ESRS prevail.
(2) See Annex for the example of a structure of the sustainability statement

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Annex 5: Corporate Sustainability Reporting Directive
ESRS 1 General Requirements Double materiality (2/3)

Double materiality has two dimensions: impact materiality and financial materiality; their assessments are inter-related and the interdependencies between the two dimensions shall be considered

DEFINITON

Severity + *Likelihood*

- *Scale* — How grave the negative impact is / how beneficial the positive impact is for people or the environment
- *Scope* — How widespread the negative / positive impacts are
- *Irremediable character* — Whether and to what extent the negative impacts could be remediated
- *Likelihood* — Degree of certainty of an event occurring

Financial effect + *Likelihood*

- Influence of the impact on future cash flows
- Degree of certainty of an event occurring

APPLICATION

Negative impact	*Actual*	*Severity*	
	Potential	*Severity*	*Probability*
Positive impact	*Actual*	*Scale* / *Scope*	
	Potential	*Scale* / *Scope*	*Probability*

Risks and opportunities may derive from past events or future events and may have effects in relation to:

Assets | *Liabilities* | *Capitals*

Already recognized or that may be recognized as a result of future events

- In the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood.

- Capitals stands for factors of value creation that do not meet the financial accounting definition of assets and liabilities and/or the related recognition criteria but contribute to the generation of cash flows and more generally to the development of the company.

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(1) The materiality perspective of the Non-Financial Reporting Directive covers both financial materiality and impact materiality (environmental and socia), whereas the TCFD considers a financial materiality perspective only

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Annex 5: Corporate Sustainability Reporting Directive

ESRS 1 General Requirements Double materiality (3/3)

A sustainability matter is "material" for the company when it meets the criteria defined for impact materiality or financial materiality or both

STEPS FOR DETERMINING MATERIALITY

1 **ANALYSE THE CONTEXT**

Understanding of the context in relation to its impacts including its activities, business relationships, sustainability context and stakeholders.

2 **IDENTIFICATION OF IMPACTS**

Identification of actual and potential impacts (both negative and positive), through engaging with relevant stakeholders and experts.

3 **MATERIALITY ASSESSMENT**

Assessment of the materiality of its actual and potential impacts.

4 **DEFINITION OF THRESHOLDS**

Determination of the material matters. The undertaking shall adopt thresholds to determine which of the impacts will be covered in its sustainability statements.

MANDATORY REPORTING INFORMATION

ESRS 2 General disclosures

Irrespective of the outcome of the materiality assessment:

+

Only for material matters

Disclose in the relevant ESRS

Develop and disclose additional information when if not covered

- Undertaking with less than 750 employees may omit: scope 3 GHG emissions data and the disclosure requirements specified in the standard on own workforce (ESRS S1) in the first year that they apply the standards; and the disclosure requirements specified in the standards on biodiversity (ESRS E4), on value-chain workers (ESRS S2), affected communities (ESRS S3), and consumers and end-users (ESRS S4) **in the first two years that** they apply the standards.
- All undertakings may omit the following information **in the first year** that they apply the standards: anticipated financial effects related to non-climate environmental issues (pollution, water, biodiversity, and resource use); and certain datapoints related to their own workforce (social protection, persons with disabilities, work-related ill-health, and work-life balance).

(1) List of datapoints in cross-cutting and topical standards that are required by EU law which stem from other EU legislation (SFDR, EU Benchmarks, Pillar III, EU Climate law ..)

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Annex 5: Corporate Sustainability Reporting Directive

ESRS – Comparison with TCFD

When comparing TCFD[1] and ESRS it is important to point out that TCFD recommendations focus on climate change related disclosure while ESRS`s scope is much broader, covering other ESRS topics

		ESRS content	Comparison TCFD
Cross-cutting standards		ESRS 1 General requirements	N/A
		ESRS 2 General disclosures	Similarities identified
Topical standards	E	ESRS E1 Climate change	Similarities identified
		ESRS E2 Pollution	N/A
		ESRS E3 Water and marine resources	N/A
		ESRS E4 Biodiversity and ecosystems	N/A
		ESRS E5 Resource use and circular economy	N/A
	S	ESRS S1 Own workforce	N/A
		ESRS S2 Workers in the value chain	N/A
		ESRS S3 Affected communities	N/A
		ESRS S4 Consumers and end-users	N/A
	G	ESRS G1 Business conduct	N/A

GOVERNANCE

ESRS 2 covers embeds TCFD **governance recommendations** and extends disclosure requirements to all sustainability matters, not only climate:

- **GOV-1** (The role of the administrative, management and supervisory bodies),
- **GOV-2** (Information provided to and sustainability matters addressed by the company's administrative, management and supervisory bodies),
- **GOV-3** (Integration of sustainability-related performance in incentive schemes). Additionally, ESRS E1 refers to GHG emission reduction targets inclusion in incentive schemes.

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Annex 5: Corporate Sustainability Reporting Directive
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		ESRS S2 Workers in the value chain	N/A
		ESRS S3 Affected communities	N/A
		ESRS S4 Consumers and end-users	N/A
	G	ESRS G1 Business conduct	N/A

STRATEGY

TCFD strategy recommendations are covered in ESRS E1. ESRS E1 is more specific on some topics:

- Concept of locked-in emissions and related stranded assets.
- Policies on both strategy and risk management processes.
- Need of reconciliation between sustainability and financial statements.
- Climate-related financial impacts more detailed and separated between physical and transition.
- More specific on emissions targets and does not allow the use of carbon credits/offsets.
- More details on potential financial effects (business activities at risks, market size for low carbon solutions, real estate assets by energy-efficiency classes, list of assets at physical acute and chronic risks, etc.)

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Annex 5: Corporate Sustainability Reporting Directive

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		ESRS E4 Biodiversity and ecosystems	N/A
		ESRS E5 Resource use and circular economy	N/A
	S	ESRS S1 Own workforce	N/A
		ESRS S2 Workers in the value chain	N/A
		ESRS S3 Affected communities	N/A
		ESRS S4 Consumers and end-users	N/A
	G	ESRS G1 Business conduct	N/A

RISK MANAGEMENT

TCFD strategy recommendations are covered in ESRS 2 (IRO-1 Description of the processes to identify and assess material impacts, risks and opportunities) and ESRS E1. ESRS is more specific on some topics:

- Not only risk and opportunities are considered but also positive and negative sustainability-related impacts that are connected with the undertaking's business
- Policies required on both strategy and risk management processes
- More details on physical and transition risks identification and assessment

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Annex 5: Corporate Sustainability Reporting Directive
ESRS – Comparison with TCFD

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		ESRS E5 Resource use and circular economy	N/A
	S	ESRS S1 Own workforce	N/A
		ESRS S2 Workers in the value chain	N/A
		ESRS S3 Affected communities	N/A
		ESRS S4 Consumers and end-users	N/A
	G	ESRS G1 Business conduct	N/A

METRICS

TCFD strategy recommendations are covered in ESRS E1. ESRS is more specific on some topics:

- Energy consumption and mix and energy intensity per revenue
- More details on GHG emissions
- Distinction between removals, and carbon credits
- Clarification on reporting scope (operational control)
- More details on potential financial effects and opportunities
- Turnover, CapEx, OpEx - EU Taxonomy
- More specific requirements on GHG targets, values aligned with 2030 and 2050 (e.g. renewable energy deployment, energy efficiency)
- Use of carbon offset (outside the undertaking's value chain), excluded from GHG emission

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Annex 5: Corporate Sustainability Reporting Directive

About TCFD

TCFD recommendations provide guidance on how to report climate-related financial disclosures. These define four categories of recommendations to be applied in all organizations, including financial information related to governance, strategy, risk management and indicators and objectives

General recommendations of the FSB Task Force

6 **Processes** to identify and evaluate climate change risk.

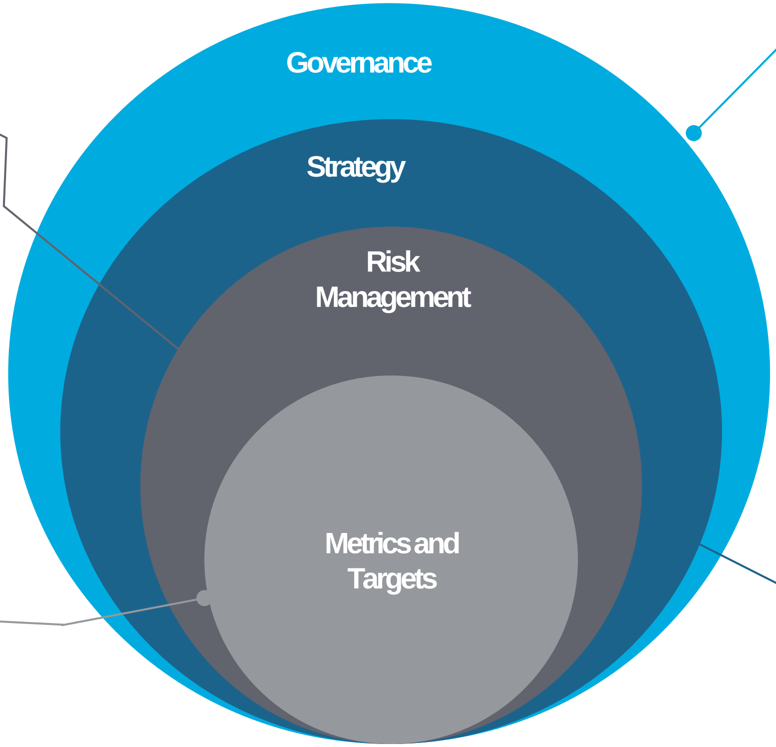
7 **Processes** to manage risks related to climate change (e.g. how decisions to mitigate them are made).

8 How these processes are executed within the organization's global risk management framework.

9 **Metrics** to evaluate risk and opportunities over climate change based on its strategy and risk management.

10 **GHG Emissions.**

11 **Objectives** applied to climate risk and opportunities, and **results** on these objectives´ execution.



1 **Board supervision** of the risks and opportunities related to climate change (i.e. the frequency with which matters related to climate change are reported)

2 **The role of senior management** on the analysis and control of the risks and opportunities related to climate change.

3 **Risks and opportunities** related to climate change that the organization has identified in the short, medium and long term.

4 Its **impact on the businesses**, the strategy and financial planning of the organization.

5 The impact on different scenarios, including the 2°C scenario.

(1) TCFD: Task Force on Climate-Related Financial Disclosures

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Annex

Annex 6: New rules on Climate-related disclosures
Introduction and executive summary

In May 2022 the SEC published a proposal on new rules on the enhanced disclosures by certain investment advisers and investment companies about ESG investment practices

1 Background

Currently there are **no specific requirements** about what a fund or adviser following an ESG strategy must include in its disclosures. These situation generates a number of risks for market participants, such as:

- **Risk of exaggerated labels**, labeling themselves as "ESG," "green," or "sustainable" in an effort to attract investors or clients, when the ESG-related features of their investment strategies may be limited.
- **Inconsistency of information** concerning how ESG factors are considered in their investment strategies to investors, other market participants, and the Commission.

2 Overview of the Proposals

Funds	Advisers
• **Minimum disclosure requirements** for ESG-Focused Funds, including GHG emissions. • **Streamlined disclosure** for **Integration Funds** that consider ESG factors, among others. • Funds to tag their ESG disclosures using the **Inline XBRL**[1] structured data language.	• **Adviser brochure** (Form ADV Part 2A) is **amended** to include information about **ESG-related disclosures from registered investment advisers** that consider ESG factors as part of their advisory businesses (several elements in common with the requirements proposed for registered funds).

- Require certain ESG reporting on **Forms NCEN and ADV Part 1A**, which are XML-structured forms.
- **Address the accuracy** of ESG-disclosures made to clients, investors and regulators and portfolio management process

3 Next steps

- Final publication (uncertain, the consultation period finished on 16 July 2022).
- Adoption, following the efffective date of publication:
  - **One year** for the following elements: i) some proposed disclosure requirements in prospectuses and for UITs; ii) the proposed regulatory reporting on Form N-CEN, and iii) the proposed disclosure requirements and regulatory reporting on Form ADV Parts 1 and 2.
  - **18 months** for some additional information regarding any assumptions and methodologies the fund applied in calculating the portfolio's GHG emissions.

(1) Extensible Business Reporting Language

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Annex 6: New rules on Climate-related disclosures

Fund Disclosure

The proposed rules would require the three different types of registered funds to disclose to investors how they incorporate ESG factors into their investment selection processes and in their investment strategies

1 Integration Fund disclosure

Summarize description of:

- **how the fund incorporates ESG factors** into its investment selection process.
- **what ESG factors** the fund considers

Where applicable, **how funds consider GHG emissions** (methodology)

2 ESG-Focused Fund disclosure

- Key information about their consideration of ESG factors in a **tabular format**[1]
- **Engagement** with issuers on ESG issues (proxy voting an others)
- **GHG emissions metrics**: weighted average carbon intensity (WACI)[2] and carbon footprint[3]
- **Specific for Impact Funds**:
  - how the progress towards the stated impact is measured, the time horizon used and the impact - financial returns relationships.
  - Progress (qualitative and quantitative) and key factors on achieving the impact.

3 Unit Investment Trusts disclosure

- UIT with portfolio securities selected based on one or more ESG factors would have to explain **how those factors were used to select those securities**.
- **Not required**:
  - Differentiate disclosure based on whether a UIT's selection process was an integration model or an "ESG-focused" model and
  - Disclosure of engagement with portfolio companies.

How to disclose?

All these ESG disclosures shall be tagged using the Inline eXtensible Business Reporting Language ("Inline XBRL")

(1) See the Table in Annex 1; (2) Portfolio's exposure to carbon-intensive companies, expressed in tons of carbon dioxide equivalents (CO2e) per million dollars of the portfolio company's revenue.; (3) The total carbon emissions associated with the fund's portfolio, normalized by the fund's net asset value and expressed in tons of CO2e per million dollars invested in the fund.

* Definition of each type of fund in annex 2

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Annex 6: New rules on Climate-related disclosures
Adviser Brochure

Advisers registered with the Commission must deliver a brochure and one or more brochure supplements to each of their clients or prospective clients, which advisers may use to help them with their disclosure obligations as fiduciaries

1. Description of the ESG factor for each significant investment strategy or method of analysis

- Provide a **description of the ESG factor**;
- **Disclose to clients** how these factors are **incorporated when providing advice;**
- Explain **whether** and **how** the adviser incorporates a **particular ESG factor** (E, S, or G) and/or a combination of factors;
- Explain **whether** and **how** the adviser **employs integration** and/or ESG-focused **strategies;**
- If there are considered different ESG factors for different strategies should be included the **proposed disclosures for each strategy**

2. Criteria or a methodology to evaluate, select, or exclude investments based on the consideration of ESG

- **Non-exclusive list** of **criteria** and **methodologies** to evaluate investments is provided:
  - An **internal methodology**, a third-party criterion or methodology such as a scoring provider or framework, or a combination of both;
  - An **inclusionary** or **exclusionary screen;**
  - An **index**, including the name of the index and a description of the index and how the index utilizes ESG factors.

3. Description of any relationship or arrangement

- Describe any **relationship or arrangement**, that is **material** to the adviser's advisory business or to its clients, that the adviser or any of its management persons have with any related person that is an ESG consultant or other ESG service provider.

4. When voting client securities, include a description of which ESG factors they consider and how

- Have specific **voting policies** or **procedures** that include one or more ESG considerations when voting client securities to include in their brochures a description of which ESG factors an adviser considers and how they consider them.
- If an adviser has **different voting policies** and procedures for strategies that address ESG-related matters, or for different clients or different ESG-related strategies, the adviser generally should describe those differences.

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Annex 6: New rules on Climate-related disclosures

Regulatory reporting on Form N-CEN and Form ADV

The SEC proposes to amend these forms for registered funds and advisers respectively, to collect census-type information about funds' and advisers' uses of ESG factors

Form N-CEN

*Annual report filed with the Commission by **all registered investment companies**, other than face-amount certificate companies*.

This information would **complement** the proposed tailored narrative disclosure included in the fund prospectus and annual report.

Disclosure requirements proposed:

A fund would be required to **indicate whether or not it incorporates ESG factors** and, if it does incorporate ESG factors, to report:

- the type of **ESG strategy** it employs
- the **ESG factor(s)** it considers
- if applicable, whether it considers **ESG factors as part of its proxy voting policies** and procedures
- provide the **legal name and legal entity identifier** ("LEI"), if any, or provide and describe other identifying number

of each such ESG provider and whether the ESG provider is an affiliated person of the Fund.

- whether the fund follows any **third-party ESG frameworks**.

Form ADV

*Uniform form used by **investment advisers** to register with both the SEC and state securities authorities*.

These proposed amendments would expand the information collected about the advisory services provided to separately management account clients and reported private funds.

Disclosure requirements proposed:

1. Form ADV: Part 1A (Brochure)
   - SEC proposes to **require ESG-related disclosures** from advisers that consider ESG factors as part of their advisory businesses, including when making investment recommendations or decisions and when voting client securities.
   - SEC plans amendments to collect information about an **adviser's considerations of ESG factors** in its advisory business.
2. Form ADV: Part 2A (Wrap fee program brochure)
   - SEC propose disclosures about a wrap fee program sponsor's use of **ESG factors**, tailored to wrap fee programs.

This information will be collected using the structured **XML-based data**, languages in which those Forms are currently submitted, thus providing the Commission and investors with consistent, usable, and comparable data.

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Annex 6: New rules on Climate-related disclosures
Compliance Policies and Procedures and Marketing

Funds are required to adopt compliance policies to address the accuracy of their disclosure measures, which would be subjected to fixed dates and will have to fulfill some marketing requirements

Compliance policies

Compliance policies and procedures must address the **accuracy of disclosures made to clients**, **investors and regulators**, as well as **portfolio management processes**, including consistency of portfolios with investment objectives and disclosures by the adviser and/or fund.

ESG strategies, including integration, ESG-focused and impact strategies, will necessarily require **different levels and types of compliance policies** and procedures.

If a registered fund discloses to investors that it adheres to a particular **global ESG framework**, its policies and procedures should include controls that help to ensure client portfolios are managed in accordance with that framework.

If an adviser uses **ESG-related positive and/or negative screens** on client portfolios, the adviser should maintain adequate controls to monitor, implement, and update those screens.

The aim is to **prevent false or misleading advertisements** by advisers, including greenwashing, by prohibiting material misstatements and fraud.

Marketing rule

Advisers are not allowed to distribute, directly or indirectly, **advertisements that contain any untrue statement** of a material fact, or omitte o state a material fact necessary in order to make the statement made, in the light of the circumstances under which it was made, not misleading.

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Annex 6: New rules on Climate-related disclosures
ESG Strategy Overview table - Instructions for filling in it

General Instructions:

- Complete **each row** with the brief disclosure required by that row—and only the information required by the relevant form instructions—with **lengthier disclosure** or other available information required elsewhere in the prospectus.
- In an **electronic version** of the prospectus, that is, a prospectus posted on the fund's website, electronically delivered to an investor, or filed on EDGAR with the Commission, the fund also would be required to provide hyperlinks in the table to the related, more detailed disclosure later in the prospectus to help investors easily access the information.

<table>
<tr><td rowspan="2">Overview of the fund's ESG strategy</td><td>Concise description in a few sentences of the factor or factors that are the focus of the fund's strategy. These allow an investor immediately to identify the ESG strategies a fund employs.</td></tr>
<tr><td>The Fund engages in the following to implement in (ESG) strategy:
❑ Tracks an index
❑ Applies an inclusionary screen
❑ Applies an exclusionary screen
❑ Seeks to achieve a specific impact
❑ Proxy voting
❑ Engagement with issuers
❑ Other → An ESG-Focused Fund would not be required to check any of the boxes if none of the common ESG strategies applied to the fund, and instead, would check the "other" box</td></tr>
<tr><td>How the Fund incorporates [ESG] factors in its investment decisions</td><td>• Specific information, in a disaggregated manner, with respect to each of the common ESG strategies applicable to the fund as identified by the "check the box" disclosure (Use of multiple rows in the table or other text features are permitted)
• If the fund uses an internal methodology, a third-party data provider, or a combination of both, in evaluating, selecting, or excluding investments, the fund's disclosure in this row must describe how the fund uses the methodology, third-party data provider, or combination of both, as applicable.
• If the fund tracks an index, the summary must identify the index and briefly describe the index and how it utilizes ESG factors in determining its constituents.
• Overview of any third-party ESG frameworks that the fund follows as part of its investment process.
• Specific for IF: Overview of the impact(s) the fund is seeking to achieve, and how the fund is seeking to achieve the impact(s)</td></tr>
<tr><td>How the Fund votes proxies and/or engages with companies about [ESG] issues</td><td>• These additional disclosure helps investors in ESG-Focused Funds understand how the fund's adviser engages with portfolio companies on ESG issues.
• A fund that checks either the proxy voting or engagement box in the first row of this table, would be required to provide here a brief narrative overview of how the fund engages with portfolio companies on ESG issues (e.g overview of the fund's voting of proxies and meetings with management).
• A fund that does not check the proxy voting box or the engagement box in the first row would disclose that neither proxy voting nor engagement with issuers is a significant means of implementing its investment strategy.</td></tr>
</table>

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A | Annex 6: New rules on Climate-related disclosures
Definitions

Proposed Integration Fund disclosure	A fund that **considers one or more ESG factors** along with others in its investment decisions, which are generally **no more significant** than the other factors.
Proposed ESG-Focused Fund disclosure	A fund that **focuses on one or more ESG factors** by using them as a **significant or main consideration** in selecting investments or in its engagement strategy with the companies in which it invests[1]. This includes: • **Impact Funds (IF)**: which seek to achieve a specific ESG impact or impacts. • Funds that has a **policy of voting its proxies** and engaging with the management of its portfolio companies to encourage ESG practices.
Proposed Unit Investment Trusts (UITs) disclosure	Unmanaged investment company that invests the money that it raises from investors in a generally fixed portfolio of stocks, bonds, or other securities

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Global context

Cross regulatory trends

Financial Regulatory trends

Why MS?

Annex

1. *Social Taxonomy*
2. *Environmental Taxonomy*
3. *TNFD Framework*
4. *ISSB Sustainability-related and climate - related disclosure requirements*
5. *Corporate Sustainability Reporting Directive*
6. *New rules on Climate-related disclosures*
7. *Corporate Sustainability Due Diligence Directive*
8. *Supervisory expectations*
9. *ECB Supervisory Priorities*
10. *Draft Guidelines on the management of ESG risks*
11. *Methodology for a Climate risk stress test*
12. *Pillar 3 Climate*
13. *Pillar 3 ESG*
14. *Enhancement and Standardization of Climate-Related Disclosures for Investors*

Annex 7: Corporate Sustainability Due Diligence Directive
Executive summary

This Directive lays down common rules within the EU on the obligations for companies regarding actual and potential human rights and environmental adverse impacts and on liability for violations of these obligations

Companies in scope(1)

- **Group 1 →** Companies with > 500 employees and > EUR 150 million in net turnover worldwide.
- **Group 2 →** Companies operating in defined high impact sectors[3], which do not meet both Group 1 thresholds, but have > 250 employees and a net turnover of > EUR 40 million provided that at least 50% of this net turnover was generated in one or more of those high- impact sectors.

Perimeter

- Obligations for companies regarding actual and potential **human rights** adverse impacts and actual and potential **environmental** adverse impacts[4] , with respect to **own operations** and operations of their **subsidiaries, and the value chain operations**[5] carried out by entities with whom the company has an **established business relationship**[6].
- **Liability for violations** of the obligations.

Next steps

- EP and the Council to approve.
- Once adopted, Member States will have **2 years to transpose it** into national law and communicate the relevant texts to the EC[2].

Subject matter of this directive

Objectives of the Directive[7]

- a — Achieve a better **integration of risk management** and **mitigation in the corporate governance practices**
- b — Increase corporate **accountability for adverse impacts** and ensure coherence on **responsible business conduct**
- c — **Improve access to remedies for those affected by human rights and environmental impacts**

Due Diligence Guidance

Most of these objectives correspond to the different actions which companies shall carry out, in order to conduct human rights and environmental due diligence. These actions are explained in the following slides

1. Integrating due diligence into their **policies**
2. Identifying actual or potential **adverse impacts**
3. **Preventing, mitigating** and **bringing** potential adverse impacts to an end
4. **Monitoring the effectiveness** of their due diligence policy and measures
5. **Publicly communicating** on due diligence
6. Establishing and maintaining a **complaints procedure**

(1) This Directive also applies to Non-EU companies active in the EU with turnover threshold aligned with Group 1 and 2, generated in the EU
(2) For group 2 companies, rules will start to apply 2 years later than for group 1.
(3), (5),(6) For more information see the Annex I
(4) Adverse environmental and human impacts are specified in the Annex, Part I and II of this Directive
(7). The Directive also sets another objective to complement **other measures in force or proposed,** which directly address some **specific sustainability challenges.** For more information see the Annex II.

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Annex 7: Corporate Sustainability Due Diligence Directive
Integrating due diligence into policies

Companies shall have in place a due diligence policy that contains a set of aspects. Also, companies need to have a plan to ensure that their business strategy is compatible with limiting global warming to 1.5 °C

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Content of the due diligence policy

1. A **description** of the company's approach, including in the long term, to conduct due diligence.
2. A **code of conduct** describing rules and principles to be followed by the company's employees and subsidiaries in order to improve human rights and environmental factor inside the company. The code of conduct should **apply in all relevant corporate functions and operations**, including procurement and purchasing decisions
3. A description of the **processes** put in place to implement due diligence, including the measures taken to verify compliance with the code of conduct and to extend its application to established business relationships.

Companies shall update their due diligence policy annually.

Plan for combating climate change

1. This plan shall identify, on the basis of information reasonably available to the company, the **extent to which climate change is a risk** for, **or an impact** of, the **company's operations.**
2. In case climate change is or should have been identified as a principal risk for, or a principal impact of, the company's operations, the company includes **emission reduction objectives**.

Implications for Directors

- Directors must put in place and overseeing the due diligence actions and in particular, the due diligence policy.

- The plan should be duly taken into account when setting **directors' variable remuneration**, if variable remuneration is linked to the contribution of a director to the company's business strategy and long-term interests and sustainability.

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Annex 7: Corporate Sustainability Due Diligence Directive

Measures against adverse impacts

Companies shall identify actual and potential adverse impacts arising from their own operations or those of their subsidiaries, to prevent them and make every effort to eliminate them

1- Identifying adverse impacts

1.A- Preventing and, if is not possible, mitigate potential adverse impacts

1.B - Bringing actual adverse impacts to an end and, if it is not possible, minimize their exten.

Main sources:

- Independent reports
- Information gathered through the complaints
- Consultations with potentially affected groups

Financial undertakings: shall carry out the identification of adverse impacts before providing the financial services

Main actions for processes A and B:

- Prevention action plan
- Seek contractual assurance[1]
- Necessary investments
- Support for SMEs
- Collaborate with other entities

Main actions only for processes B:

- Neutralization measures
- Corrective action plan

Are these actions enough?

Y → Prevention or mitigation achieved

N → Conclude a contract with a partner with whom it has an indirect relationship (verification measures would apply)

Are these actions enough?

Y → Prevention or mitigation achieved

N →

- Temporarily suspend commercial relations
- Terminate the business relationship

This shall not be required when is referred to financial services and can cause a substancial prejudice to the entity to whom that service is being provided

(1) From a business partner with whom it has a direct business relationship that it will ensure compliance with the company's code of conduct including by seeking corresponding contractual assurances from its partners, to the extent that their activities are part of the company's value chain (contractual cascading). When such contractual assurances are obtained, shall be accompanied by the appropriate measures to verify compliance.

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Annex 7: Corporate Sustainability Due Diligence Directive
Monitoring and publicly communicating

For conducting appropriate due diligence, companies shall monitor the effectiveness of the taken measures and communicate publicly on their due diligence. In order to ensure these, supervisory rules have been laid down

Monitoring

- **Periodic assessments (at least every 12m)**, qualitative and quantitative, of **own operations** and measures, those of **subsidiaries** and, where related to the **value chains** of the company, those of their established business relationships, to monitor the effectiveness of the **identification, prevention, mitigation, bringing to an end and minimization** of the extent of human rights and environmental adverse impacts.
- The **due diligence policy shall be updated** in accordance with the outcome of those assessments.

Disclosure

NFRD companies?	Non-NFRD companies?
• Non-financial disclosure statement.	• Publication on their website of an **annual statement**[1] in a language customary in the sphere of international business. • The statement shall be published **by 30 April each year**, covering the previous calendar year.

(1) This obligation should be analysed in line with other complementary legislation in force.

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Annex 7: Corporate Sustainability Due Diligence Directive

Complaints procedure and company civil liability

Companies shall establish complaints procedure to hear cases from potentially affected persons or its representatives. Also, companies shall be liable for damages caused by adverse impact that could have not been prevented, mitigated or brought to an end

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COMPANY COMPLAINTS PROCEDURE

Who can submit complaints

- **Persons** who are **affected** or have a reasonable grounds to believe that they might be affected by an adverse impact.
- **Trade unions** and other **worker's representatives** representing individuals working in the value chain concerned.
- **Civil society organizations** active in the areas related to the value chain concerned.

How to deal with complaints

- Establishing a procedure for **dealing with these complaints** (founded and unfounded) and inform the relevant workers and trade unions of those procedures. W**here the complaint is well-founded**, the adverse impact that is the subject matter of the complaint is deemed to be identified.

Complainants' rights

- Requesting **appropriate follow-up on the complaint** from the company with which they have filed a complaint.
- Meeting the **company's representatives** at an appropriate level **to discuss potential** or **actual** severe adverse **impacts** that are the subject matter of the complaint.

COMPANY CIVIL LIABILITY

When companies **fail to achieve the objectives of preventing** potential adverse impacts, adequately **mitigated** or **bring adverse impacts to an end** they shall be **liable for damages**.

- When a company has **sought contractual assurances** from their business partner, and they are accompanied by the appropriate measures to verify compliance, that company **shall not be liable for damages** caused by an adverse impact arising as a result of the activities of an indirect partner with whom it has an established business relationship.
- The civil liability of a company shall be without prejudice to the one of its subsidiaries or business partners.

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Annex 7: Corporate Sustainability Due Diligence Directive
Definitions in relation to the perimeter and companies in scope

Definitions of high impact sectors, value chain and established business relationship, will help to better understand the perimeter and the companies in scope of this Directive

High impact sectors

The **manufacture** of textiles, leather and related products (including footwear), and the wholesale trade of textiles, clothing and foot.

Agriculture, forestry, fisheries (including aquaculture), the manufacture of food products, and the wholesale trade of agricultural raw materials, live animals, wood, food, and beverages.

The **extraction of mineral resources** regardless from where they are extracted (including crude petroleum, natural gas, coal, lignite, metals and metal ores, as well as all other, non-metallic minerals and quarry products), the **manufacture of basic metal products**, other non-metallic mineral products and fabricated metal products (except machinery and equipment), and the wholesale trade of mineral resources, basic and intermediate mineral products (including metals and metal ores, construction materials, fuels, chemicals and other intermediate products).

Value chain general concept

The value chain should **cover activities related to the production of a good or provision of services** by a company, including the **development of the product or the service** and the **use and disposal** of the product as well as the **related activities of established business relationships** of the company. It should encompass **upstream established direct and indirect business relationships** that design, extract, manufacture, transport, store and supply raw material, products, parts of products, or provide services to the company that are necessary to carry out the company's activities, and also **downstream relationships**, including **established direct and indirect business relationships**, that use or receive products, parts of products or services from the company up to the end of life of the product, including inter alia the distribution of the product to retailers, the transport and storage of the product, dismantling of the product, its recycling, composting or landfilling.

Value chain concept regarding financial undertakings[1]

Provision of such services should be **limited to the activities of the clients** receiving such services, and the **subsidiaries** thereof whose activities are linked to the contract in question. **Clients that are households and natural persons not acting in a professional or business capacity**, as well as small and medium sized undertakings, should **not be considered** to be part of the value chain. The **activities of the companies or other legal entities that are included in the value chain of that client** should **not be covered**.

Established business relationships

A **business relationship**, whether **direct or indirect**, which is, or which is expected to be **lasting**, in view of its intensity or duration and which **does not represent a negligible or merely ancillary** part of the value chain.

(1) **Providing loan, credit, or other financial services**

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Since the signature in 2015 of the Sustainable Development Agenda and the Paris Agreement, the EU has been making strides to promote the transition towards a sustainable economy, set in the EC´s Green Deal and Action Plan on Financing Sustainable Growth

September 2015

United Nations Sustainable Development Agenda for 2030

- In 2015 the **Sustainable Development Agenda for 2030** was established at the United Nations (UN), which sets 17 sustainable development goals (SDGs), including one regarding climate change mitigation, as well as 169 targets.

December 2015

United Nations Paris Agreement

- The **Paris Agreement** was also signed in 2015. Its mission is to reinforce the international response to the threat of Climate change and establishes the objective of a maximum temperature increase of 2ºC in the XXI century relative to preindustrial levels.

March 2018

European Commission´s Action Plan on Financing Sustainable Growth

- The financial sector is expected to play a key role in the transition towards a climate neutral economy, as established in the **European Commission's Action Plan on Financing Sustainable Growth**. This plan has three main goals:
  - Reorienting capital flows toward a more sustainable economy.
  - Mainstreaming sustainability in risk management.
  - Fostering transparency and long-termism.

December 2019

European Commission´s Green Deal

- The European Commission (EC) presented in 2019 the **European Green Deal,** which aims to promote a circular and sustainable economy, as well as to reduce the Union´s net emissions to zero in 2050.

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In this context, the ECB has published the Final Guidelines on climate-related and environmental risks, outlining the regulator's understanding of sound, effective and comprehensive management of such risks

EUROPEAN CENTRAL BANK
BANKING SUPERVISION

- Transitioning to a low-carbon and more circular economy entails important risks and opportunities for the economy and the financial system and its stakeholders. For the second year, **the European Central Bank (ECB) has identified climate-related risks as a key risk driver on the Single Supervisory Mechanism (SSM) Risk Map for the euro area banking system**.

- After the public consultation launched on May 2020, the ECB has issued the **Final Guidelines climate-related and environmental risks** outlining its understanding of sound, effective and comprehensive management of such risk sunder the current framework. The document sets the supervisory expectations on how institutions should address this matter.

Scope of application

The expectations set out in this guide are to be used in the ECB's supervisory dialogue with **significant institutions directly supervised**. Additionally, this guide has been **developed jointly by the ECB** and the **national competent authorities (NCAs)** and therefore, they are recommended to apply the expectations established in this guide in their supervision of **less significant institutions (LSIs)**, in a manner that is proportionate to the nature, scale and complexity of the activities of the institution concerned.

Supervisory expectations

The expectations set out in this guide are divided into four key pillars:

- Supervisory expectations relating to **business model and strategy**.
- Supervisory expectations relating to **governance and risk appetite**.
- Supervisory expectations relating to **risk management**.
- Supervisory expectations relating to **disclosure**.

PDF Access the full document

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Climate risks can be categorised in physical and transition risks. These risks are in turn drivers of prudential risk, in particular credit risk, operational risk, market risk and liquidity risk as well as non-Pillar 1 risks such as migration risk, credit spread risk in the banking book, real estate risk and strategic risk

- Climate change and environmental degradation are sources of structural change that affect economic activity and, in turn, the financial system. Climate-related and environmental risks are commonly understood to comprise two main risk drivers: **physical risk and transition risk**.
- Climate risks impact economic activities, which in turn impact the financial system, either directly or indirectly. Additionally, climate risks can trigger other losses stemming from legal claims– liability risk- and reputational loss. Consequently, **physical and transition risks are drivers of prudential risk, in particular credit risk, operational risk, market risk and liquidity risk**, as well as **non-Pillar 1 risks** such as migration risk, credit spread risk in the banking book, real estate risk and strategic risk

Physical risk

- It refers to **the financial impact of a changing climate**, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, such as air, water and land pollution.
- It is categorised as "**acute**" when it arises from extreme events, and "**chronic**" when it arises from progressive shifts, such as increasing temperatures, sea-level rises, water stress, biodiversity loss, land use change, habitat destruction and resource scarcity.

Transition risk

- It refers to an **institution's financial loss that can result from the process of adjustment towards a lower-carbon and more environmentally sustainable economy**. This could be triggered, for example, by a relatively abrupt adoption of climate and environmental policies, technological progress or changes in market sentiment and preferences.

- The magnitude and distribution of physical and transition risks depend on the level and timing of mitigation measures and whether the transition occurs in an orderly or disorderly fashion. Irrespective of this, **some combination of physical and transition risks will**, in all probability, **materialise on the balance sheets** of euro area institutions and **the economic value of their exposures**.

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This guide outlines the ECB's supervisory expectations regarding climate-related and environmental (C&E) risk management, organised in four key pillars

Business models and strategy

- **Business environment**: understand the impact of C&E risks on the business environment in which they operate in the short, medium or long term.
- **Business strategy**: integrate C&E risks that impact their business environment in the business strategy.

Governance and risk appetite

- **Management body**: the management body should consider C&E risks when developing the business strategy, business objectives and risk management framework, and exercise effective oversight.
- **Risk appetite**: explicitly include C&E risks in the risk appetite framework.
- **Organisational structure**: responsibility of C&E risks within the organisational structure in accordance with the 3 lines of defence model.
- **Reporting**: report aggregated risk data that reflect their exposures to C&E to the management body.

Risk management

- **Risk management framework**: incorporate C&E as drivers of existing risk categories into their existing risk management framework with a view to managing, monitoring and mitigating these over a long term horizon. Further, institutions should Identify and quantify these risks within their overall process of ensuring capital adequacy (ICAAP).

Credit risk: consider C&E at all stages of the credit-granting process and monitor the risks in their portfolios.

Operational risk: Consider adverse impact on business continuity, reputational and/or liability risks.

Market risk: monitor impact on current market risk positions and future investments,

Liquidity risk: incorporate into liquidity risk management and liquidity buffer calibration.

Scenario analysis and stress testing: incorporate C&E to stress-testing scenarios risks (into their baseline and adverse scenarios)

Disclosure

- **Disclosure policies and procedures**: publish meaningful information and key metrics on C&E considering with due regard to the EC's Guidelines on non-financial reporting: *Supplement on reporting climate-related information*.

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The ECB expects institutions to understand the impact of C&E risks on their business environment, as well as to integrate these risks in their business strategy. Finally, this consideration should be registered and documented

- Institutions are expected to understand the impact of climate-related and environmental risks on the **business environment** in which they operate, in the short, medium and long term, in order to be able to make informed strategic and business decisions.

Requirements and actions

- **Identify risks arising from climate change and environmental degradation** at the level of key sectors, geographies and products and services.
- Institutions are expected to **understand how C&E risks affect their business environment in the short, medium and long term**.
- Institutions are expected to reflect the risks to their lending portfolios stemming from the transition to a more sustainable economy.
- Institutions should also take into account:
  - The relevant time horizon
  - Scientific insights
  - Monitoring of relevant policy initiatives

Documentation and reports

- Institutions are required to **document material factors that impact their business environment**, and they should be aware that C&E risks are one of these factors.
- **Document their assessments of C&E risks for their business environment**, for example in their regular monitoring of material emerging risks or in management board discussions.
- The institution's understanding of how C&E affect their business environment is expected to be **reflected in business strategy processes**, demonstrated for example by **management body meetings and discussions**.

- When **determining and implementing their business strategy**, institutions are expected to integrate climate-related and environmental risks that impact their business environment. To this end, institutions should:
  - Determine **which climate-related and environmental risks impact their business strategy in the short, medium and long term** using, for example using **stress scenario analysis**.
  - **Establishing monitoring KPIs that reflect material C&E risks** and are cascaded down to relevant business lines and portfolios in the implementation of the institution´s business strategy.

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Risk management framework

The ECB expects institutions to consider C&E risks by the management body, in the risk appetite framework, as well as within the organisational and the reporting structures

Management body

Consider C&E risks when developing the business strategy, business objectives and risk management framework, and to oversight

- Allocate roles and responsibilities
- Ensure the embedding of C&E risks in business strategy and risk management framework
- Consider specific objectives such as the Paris Agreement or the EU Green Deal
- Exercise effective oversight
- Adequate understanding of climate-related and environmental risks for a sound and effective management and disclosure of C&E to which the institution is exposed

Risk appetite

Explicitly include C&E risks in the risk appetite framework (RAF)

- Develop a description C&E risks in their risk inventory that feeds into their risk appetite statement (RAS)
- Develop KRIs and set limits for C&E risks
- Develop metrics that consider the long-term nature of climate change, particularly different paths of temperature and GHG emissions
- Ensure that their remuneration policy stimulates behavior consistent with their C&E risk approach

Organisation and structure

Responsibility of C&E risks within the organisational structure should be distributed in accordance with the 3 LoD model

- Assign and document responsibilities for C&E risks
- Ensure these functions have appropriate resources
- Define the tasks and responsibilities of each relevant function

Reporting

Report aggregated risk data that reflect their exposures to C&E to the management body

- Develop a holistic approach to data governance for C&E risks
- Adapt their IT systems to collect the necessary data
- Reflect these risks in risk reports, which also cover climate-related and environmental risks

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Institutions are expected to incorporate C&E risks as drivers of existing risk categories into their existing risk management framework. Further, institutions should identify and quantify these risks within their overall process of ensuring capital adequacy

- Institutions are expected to **comprehensively analyse the ways in which C&E risks drive the different risk areas**, including liquidity, credit, operational, market **and any other material risk to capital or any of its sub-categories** that it is or might become exposed to. Furthermore, they are expected to pay particular attention to **concentrations within and between risk types** that climate-related and environmental risks may cause.
- Institutions are expected to comprehensively **include climate-related and environmental risks in their assessment of materiality** for all of their business areas in the short, medium and long-term under various scenarios.

Institutions are expected to have a **holistic and well-documented view** of the impact of C&E risks on existing risk categories (both financial and non-financial risks).

Institutions are expected to **adequately quantify the C&E risks** that the institution is exposed to. Where such quantification methodologies are subject to further developments, institutions may use plausible assumptions to develop proxies for the assessment of C&E risks.

Institutions are expected to adopt a **strategic approach** to managing and/or mitigating C&E risks in line with their business strategy and risk appetite, and to **adapt policies** (e.g. setting limits on financing certain sensitive economic sub-sectors), **procedures**, **risk limits and risk controls accordingly**.

Institutions are expected to conduct a **proper climate-related and environmental due diligence**, both at the inception of a client relationship and on an ongoing basis and to perform reasonability checks on such information and data.

Institutions are expected to **assess the impact** of C&E risks and any **concentration** within and between those risks on their **capital adequacy** from an economic and a normative perspective.

Institutions are expected to evaluate the appropriateness of their **identification**, **measurement** and **mitigation instruments** for C&E risks in their periodic reviews (e.g. in the context of the ICAAP).

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Annex 8: Supervisory expectations
Risk management framework

Due to the fact that physical and transition risks are drivers of prudential risks[1], in particular credit, market, operational and liquidity risks, institutions are expected to integrate C&E risks on their existing risk management frameworks

Risks affected	Physical		Transition	
	Climate-related	Environmental	Climate-related	Environmental
	▪ Extreme weather events ▪ Chronic weather patterns	▪ Water stress ▪ Resource scarcity ▪ Biodiversity loss ▪ Pollution ▪ Other	▪ Policy and regulation ▪ Technology ▪ Market sentiment	
Credit	The **PD and LGD of exposures** within sectors or geographies **vulnerable to physical risk** may be impacted (e.g. lower collateral valuations in real estate portfolios).		**Energy efficiency standards** may trigger **substantial adaptation costs and lower corporate profitability**, which may lead to a higher PD as well as lower collateral values.	
Market	Severe physical events may lead to **shifts in market expectations** and could result in **sudden repricing**, **higher volatility and losses in asset values** on some markets.		Transition risk drivers may generate an **abrupt repricing of securities and derivatives**, for example for products associated with industries affected by asset stranding.	
Operational	The **bank's operations** may be disrupted due to physical damage to its property, branches and data centres as a result of extreme weather events.		Changing **consumer sentiment regarding climate issues** can lead to reputation and liability risks for the bank.	
Other risk types (liquidity, business model)	**Liquidity risk** may be affected in the event of clients withdrawing money from their accounts in order to finance damage repairs.		Transition risk drivers may affect the **viability of some business lines** and lead to strategic risk for specific business models if the necessary adaptation or diversification is not implemented. **Abrupt repricing** of securities, for instance due to asset stranding may reduce the value of banks' high quality liquid assets affecting liquidity buffers.	

(1) Source: ECB Guide on climate-related and environmental risks

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Annex 8: Supervisory expectations
Risk management framework: Credit risk

In their credit risk management, institutions are expected to consider C&E risks at all stages of the credit-granting process and to monitor the risks in their portfolios

Credit risk management

- **C&E risks are expected to be included in all relevant stages of the credit-granting process and credit processing**. Specifically, institutions are expected to form an opinion on how these risks affect the borrower's probability of default (PD) risk, where key factors should be identified and assessed.
- Institutions are expected to **adjust risk classification procedures in order to identify and evaluate, at least qualitatively, C&E**. In this sense, institutions should define appropriate general risk indicators or ratings for their counterparties that take into account C&E. Critical exposures should be highlighted and where applicable, considered under various scenarios.
- Institutions are expected to consider **C&E in their collateral valuations**. In this regard, institutions are expected to give particular consideration to the physical locations and the energy efficiency of commercial and residential real state.
- Institutions are expected to **monitor and manage credit risks and critical CR& E risk exposure in their portfolios under different scenarios**, for example, through sectoral/geographic/single-name concentrations analysis, including credit risk concentrations stemming from climate-related and environmental risks, and using exposure limits or deleveraging strategies. For larger counterparties, institutions may consider C&E risks in the single-name concentration analysis.
- **Institutions' loan pricing frameworks** are expected to reflect their **credit risk appetite and business strategy with regard to C&E factors**. Furthermore, institutions may also consider to **incentivise their clients** to mitigate C&E risks.
- **Institutions' loan pricing** is expected to reflect the **different costs driven by C&E risks**. Environmentally sustainable assets may, for example, be funded by dedicated instruments, such as green (covered) bonds, and thus incur different funding costs. Areas exposed to increasing physical climate risks (e.g. floods or droughts) may see an increase in credit loss.

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Annex 8: Supervisory expectations

Risk management framework: Operational and market risk management

Institutions are expected to consider how climate-related and environmental events could have an adverse impact on business continuity and should monitor the effects of C&E factors on their current market positions and future investments

Operational risk management

- Institutions are expected to consider how C&E events could have and **adverse impact on business continuity** and the extent to which the **nature of their activities could increase reputational and/or liability risks**. In this sense, institutions are expected to adopt all necessary measures to safeguard business continuity and to ensure a timely disaster recovery, both in terms of policies and the functioning of physical assets, including IT systems.
- Institutions are expected to assess the **impact of physical risks on their operations** in general, including the ability to quickly recover their capacity to continue providing services. This assessment should be conducted as part of their **business continuity management** and the outcome of this assessment is expected to be reflected in its **business continuity plan**.
- Institutions are expected to evaluate the **extent to which the nature of the activities** in which they are involved increases the risk of a negative financial impact arising from future **reputational damage, liability and/or litigation**. Institutions associated with social or environmental controversies could face negative financial impacts stemming from reputational risks as a result of changing market sentiment in relation to C&E risks. Further, institutions should review their exposure to **compliance risk regarding C&E risks** and ensure their **alignment with relevant regulation**.

Market risk management

- Institutions are expected to consider that C&E risks could lead to **potential shifts in supply and demand for financial instruments** (e.g. securities or derivatives), products and services, **with a consequent impact on their values**. **Internal stress testing** could be usefully applied to better understand and assess the relevance of climate-related risks for an institution's trading and banking book.
- In line with the nature of the ICAAP perspectives, institutions are expected to assess in the normative perspective, as a minimum, **risks arising from debt, equity and equity-related financial instruments in the regulatory trading book**, as well as **foreign exchange positions** and **commodities risk positions** assigned to both the **trading and banking book**. In the economic perspective, all instruments are expected to be assessed based on economic value considerations, irrespective of their accounting treatment.
- Special attention should be given to C&E risks' potential impact on credit spreads and commodity trading.

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Institutions are expected to assess whether material C&E risks could cause net cash outflows or depletion of liquidity buffers. Further, institutions are expected to conduct a tailored an in-depth review of their vulnerabilities through stress testing

Liquidity risk management

- To ensure robust **liquidity risk management**, institutions are expected to consider the direct or indirect impacts of C&E risks on their **liquidity position**, and are encouraged to include such considerations in their **ILAAP**. In this sense, they are expected to assess whether C&E risks could have a **material impact on net cash outflows or liquidity buffers**, and in that case, incorporate this into their liquidity risk management and **liquidity buffer calibration**.
- These assessments are expected to be conducted in a **forward-looking manner**, assuming both business-as-usual and stressed conditions, and to consider in particular severe but plausible scenarios that may occur in combination, with a focus on key vulnerabilities.
- Additionally, institutions are expected to link their business strategy with the **allocation of liquidity resources**.

Stress test

- Institutions with material C&E risks are expected to **evaluate the appropriateness of their stress testing**, with a view to incorporating physical and transition risk into their **baseline** and **adverse scenarios**[1]. Specifically for transition risk, institutions are expected to use scenarios that, for different policy outcomes, embed plausible considerations for the related physical outcome[2].
- Aspects expected to be considered when conducting a **C&E scenario analysis and stress testing**:
  - How the institution might be **affected by physical and transition risk**
  - How C&E risks might **evolve under various temperature scenarios**, taking into account that these risks may not be fully reflected in historical data
  - How C&E risks **might materialize in the short, medium and long term** depending on the scenarios considered. It should include a forward-looking **timespan of minimum 3 years**
  - **Integrate potential impacts in recovery and resolution scenarios**
- In addition, institutions are expected to **define the assumptions for their own risk profile and individual specifications**, as well as **consider several scenarios** based on different combinations of assumptions.
- Further, as part of their **capital planning**, institutions are expected to assess their capital adequacy under a plausible baseline scenario and institution specific adverse scenario.

(1) Institutions are expected to consider using scenarios that are in line with scientific climate change pathways, such as IPCC scenarios.

(2) These aspects should be reflected in an institutions' ICAAP.

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Annex 8: Supervisory expectations
Disclosure

Institutions are expected to publish meaningful information and metrics on C&E risks, considering as a minimum EC's *Guidelines on non-financial reporting: Supplement on reporting climate-related information*

- For the purposes of their regulatory disclosures, institutions are expected to **publish meaningful information and key metrics** on C&E risks that they deem to be material, with due regard to the *European Commission's Guidelines on non-financial reporting: Supplement on reporting climate-related information*. In this regard:
  - Institutions are expected to specify in their disclosure policies key considerations that inform their **assessment of the materiality of C&E risks**, as well as the frequency and means of disclosures.
  - In case an institution deems climate-related risks to be **immaterial**, the institution is expected to document this judgement with the available **qualitative and quantitative information underpinning** its assessment.
  - When institutions disclose figures, metrics and targets as material, they are expected to **disclose the methodologies, definitions and criteria** associated with them.
  - When institutions commit to contribute to C&E goals, they are also expected to provide a **comprehensive overview of the climate and the environmental impact of the entity as a whole**.

Content of C&E risk disclosures

- Disclose climate-related risks that are financially material in line with the EC's *Guidelines on non-financial reporting: Supplement on reporting climate-related information*, which integrate the recommendations of the TCFD and is consistent with the NFRD.
- Disclose the institution's Scope 3 GHG emissions for the whole group in line with the GHG Protocol.
- Disclose the KPIs and KRIs used for the purposes of their strategy-setting and risk management, as well as their current performance against these metrics.
- Explicitly consider the need for further disclosures.

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Annex 8: Supervisory expectations
Relevant information and next steps

The guide will be primarily used in the supervisory dialogue with significant institutions directly supervised, although NCAs are recommended to apply it in their supervision of LSIs

- This Guide is applicable since its **date of publication**.
- As part of the supervisory dialogue, **from early 2021**, significant institutions will be asked by **Joint Supervisory Teams** to inform the ECB of any existing divergences in their practices from the supervisory expectations described in this guide and to inform the ECB of arrangements aimed at progressively addressing these expectations.

Correspondence with the ECB's general prudential framework:

- This guide describes the ECB's understanding of the safe and prudent management of C&E risks under the current prudential framework. In that respect, the following regulation is particularly relevant:
    - **Capital Requirements Directive (CRD)** - Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.
    - **Capital Requirements Regulation (CRR)** - Regulation (EU) No 575/2013 of the European Parliament and of the Council of on prudential requirements for credit institutions and investment firms.
- Additionally, the EBA has adopted several guidelines which complement the abovementioned directives. Where the ECB's guide makes reference to those guidelines, the reference should be read in conjunction with the directives.

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Global context

Cross regulatory trends

Financial Regulatory trends

Why MS?

Annex

1. *Social Taxonomy*
2. *Environmental Taxonomy*
3. *TNFD Framework*
4. *ISSB Sustainability-related and climate - related disclosure requirements*
5. *Corporate Sustainability Reporting Directive*
6. *New rules on Climate-related disclosures*
7. *Corporate Sustainability Due Diligence Directive*
8. *Supervisory expectations*
9. *ECB Supervisory Priorities*
10. *Draft Guidelines on the management of ESG risks*
11. *Methodology for a Climate risk stress test*
12. *Pillar 3 Climate*
13. *Pillar 3 ESG*
14. *Enhancement and Standardization of Climate-Related Disclosures for Investors*

Annex 9: ECB Supervisory Priorities
Context

The ECB Banking Supervision has reviewed its strategic priorities for the next three years to reflect the challenges and more structural vulnerabilities in the sector

Stress in the US and Swiss banking sectors

The European banking sector demonstrated its high resilience to external shocks when the stress in the US and Swiss banking sectors in March 2023 triggered only limited and temporary spillover effects. European banks proved to be strong in terms of capital, liquidity and asset quality, and could also draw on well-diversified funding sources and customer bases.

Geopolitical context

The growth outlook for the euro area remains subject to high uncertainty in the context of tighter financing conditions and heightened geopolitical tensions, while future energy and food price paths are subject to upside risks. Inflationary pressures are further shaping the challenging environment.

Inflationary pressures

Headline inflation in the euro area is projected to continue on a downward path over the medium term, while core inflation is expected to fall more gradually. If monetary policy requires further tightening, or if interest rates stay at higher levels for longer in a scenario of persistently high inflation, the economic growth outlook may deteriorate.

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Annex 9: ECB Supervisory Priorities

Priorities and vulnerabilities

The ECB set its supervisory priorities for 2024-2026 and has targeted a set of vulnerabilities in the banking sector for each of these priorities

Priority 1

Strenghen resilience to immediate macro-financial and geopolitical shocks.

- Shortcomings in **credit risk** and **counterparty credit risk** management frameworks — **Credit risk**
- Shortcomings in **asset and liability management** frameworks — **Liquidity and funding risk**

Priority 2

Accelerate the effective remediation of shortcomings in governance and the management of climate-related and environmental risks.

- Deficiencies in **management bodies' functioning** and steering capabilities and deficiencies in **risk data aggregation** and **reporting** — **Governance**
- Material exposures to **physical and transition risk drivers of climate change** — **Climate related and environmental risks**

Priority 3

Further progress in digital transformation and building robust operational resilience frameworks.

- Deficiencies in **digital transformation** strategies — **Business model**
- Deficiencies in **operational resilience frameworks**, namely IT outsourcing and IT security/cyber risks — **Operational risk**

Vulnerabilities

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Supervisory priorities work programmes

For each vulnerability, the ECB has set dedicated strategic objectives and has developed work programmes in order to mitigate the underlying risks

Priority 1

Credit risk

- Targeted reviews focusing on the **resilience of portfolios** that are more sensitive to the current macro-financial situation.
- Follow-up on the **IFRS 9 targeted review**, monitoring progress on the ability of banks' expected credit loss models to capture emerging risks, with a focus on overlays.
- Extension of the **deep dives on forbearance** and UTP policies, extension of the **OSIs, internal model investigations and follow-up by JSTs.**
- Follow-up on the targeted review of **CCR management** conducted in 2022.
- Targeted OSIs on specific aspects of **CCR management.**

Liquidity and funding risk

- Targeted reviews of the **soundness and reliability of funding plans**, contingency planning, and ALM governance and strategies.
- Targeted OSIs assessing **funding and recovery plans.** Follow-up on findings.
- OSIs campaign on **IRRBB**.

Priority 2

Governance

- Targeted review of the **effectiveness of banks' management bodies** and targeted OSIs.
- Update and external publication of **supervisory expectations** and best practices regarding banks' governance and risk culture.
- **Refinement of supervisory expectations** related to the implementation of RDAR principles and publication of the Guide on effective RDAR.
- Targeted reviews and OSIs of **RDAR practices**.

Climate related and environmental risks

- Targeted follow-up on shortcomings identified in the context of the 2022 climate risk **stress test** and **thematic review**, to assess full alignment to supervisory expectations by end 2024.
- Review of banks' compliance with **Pillar 3** disclosure requirements related to C&E risk, and benchmarking of banks' practices against supervisory expectations.
- Deep dives on banks' capabilities of addressing reputational and litigation risk associated with C&E related commitments.
- Targeted OSIs on climate-related aspects.

Priority 3

Business Model

- Targeted reviews focusing on the impact of **banks' digital transformation on their business model complemented** by JSTs' follow-up with banks where material deficiencies are identified
- Targeted OSIs on **digital transformation.**
- **Publication of supervisory expectations** and sharing of best practices on digital transformation strategies.

Operational risk

- Data collection and horizontal analysis of **outsourcing registers** to identify interconnections among supervised institutions and third-party providers and potential risk concentrations in certain providers.
- Targeted reviews and OSIs of **outsourcing and cyber security management.**
- **System-wide cyber resilience stress test** in 2024 focusing on the response and recovery capabilities of banks after a cyber security incident, and their ability to contain the impact.

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10. *Draft Guidelines on the management of ESG risks*
11. *Methodology for a Climate risk stress test*
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14. *Enhancement and Standardization of Climate-Related Disclosures for Investors*

Annex 10: Draft Guidelines on the management of ESG risks
General aspects

EBA has published a Consultation Paper Draft Guidelines on the management of ESG Risks to set up the preliminary requirements for institutions

Objective	• Define the **requirements for institutions** for the **identification, measurement, management and monitoring of ESG risks**, including through **plans** aimed at addressing the risks arising from the **transition towards an EU climate-neutral economy**.
Calendar	• **Public hearing** on the consultation paper on **28 February 2024** • Comments' **submission** until **18 April 2024** • **Expected final guidelines by the end 2024. Application: TBC** (aligned with the amended CRD6 application date)
Scope	• **Requirements for environmental**, **social and governance risks. Extending environmental beyond climate**-related ones, such as risks stemming from **degradation of ecosystems and biodiversity loss**, as well as of other ESG factors[1]. • Applicable to **all institutions including SNCI[2]**, considering the **proportionally** criteria and covering their **material ESG risks**. • **Cover all material subsidiaries in and outside of the EU**, by having regard to applicable local legislation and ESG regulatory objectives. • **Proportionality** criteria based on size and internal organization, and the nature, scale and complexity of their activities, when developing and implementing the approaches for ESG risks management[3].
Main challenges	• Assessment and monitoring of **ESG risks** over institutions' **exposures/assets** in different **time horizons** and **climate scenarios through…** o Exposure method to obtain a short-term view of how **ESG risks are impacting the credit risk profile and the profitability of counterparties** (embedding in **KRIs, internal credit scoring or rating models or valuation of collateral**, when it is applicable). o Portfolio-based & Scenario-based methods to support the **medium-term planning process** and to define **risk limits**, **appetite and EWIs** steering the institution towards its strategic objectives and assess their **sensitivities to ESG risks** in different time horizons. • **Data collection** related to **ESG factors at least for large corporates** based on client engagement approach to gather it (onboarding or periodic reviews), public information or external providers. Possible application of estimation/proxies to be reduced progressively. • **Portfolio alignment & transition plan:** setting of **targets at least for the most climate contributing sectors,** as well as definition and monitoring of **transition plan** leveraged on embedding in **lending policies, new product offering, client engagement tools**…

1. Annex 1 of EBA Report on management and supervision of ESG risks
2. Small and non-complex institutions.
3. Title I of the EBA guidelines on internal governance. Paragraphs 17 & 18.
4. Early Warning Indicators

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Annex 10: Draft Guidelines on the management of ESG risks
Calendar

EBA has published a Consultation Paper Draft Guidelines on the management of ESG Risks to set up the preliminary requirements for institutions

Calendar

January 2024	*February 2024*	*April 2024*	*December 2024*	*January 2025*	*June 2025*
Publication of **new Guidelines on the management of ESG Risks (Draft)**	Public hearing on the consultation on **28 February**	The **deadline** for the **submission** of comments is **18 April.**	Publication of **Final Guidelines on the management of ESG Risks**	**Expected application of CRR3 from 1 January 2025**, with certain elements of the regulation phasing in over the coming years	**Amendment of the CRDVI** expected to be **transposed by member states by mid-2025**.

EBA is **consulting on the draft guidelines for a period of three months**. Feedback from the public consultation will be taken into account when finalising the guidelines. It is planned that the **guidelines** will be finalised **by end-2024** and **apply from [tbc – depending on CRD6 application date]**

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Annex 10: Draft Guidelines on the management of ESG risks

EBA requirements

EBA CP Draft Guidelines on ESG Risks management is split by three building blocks: i) reference methodology for identification and measurement of ESG Risks; ii) minimum standards and reference methodology for the management and monitoring of ESG risks; iii) Plans in accordance with CRD6

i) Reference methodology for identification & measurement of ESG Risks

Materiality

- Execution of **materiality assessment of ESG risks at least annually** (every 2 years for SNCI) to ensure that ESG risk identification and measurement are integrated into their strategies and internal procedures. To be included in ICAAP.
- **Covering all financial risk categories** (credit, market, liquidity, operational, reputational, business model, and concentration) and **highly climate contibuting sectors[1] at short, medium and long term.**
- Include **qualitative and quantitative data and ESG assessment of impacts** on the most significant **activities, services and products** (considering the climate risk drivers under different climate scenarios)
- Use of **risk-based approach** that considers the **likelihood and the severity of the materialisation of the risks**.

Identification & Measurement

Data processes

- **Implementation** of **systems to collect and aggregate ESG risks-related data across the institution** as part of the overall data governance and IT infrastructure (including arrangements to assess and improve ESG data quality)
- **Capture of data** for the assessment of the **current and forward-looking ESG risk profile** of **counterparties** (at least for large corporates), including **client and asset-level data**. Data collection from onboarding or periodic reviews or external sources[2]. Examples:
  - i. for **environmental**, emissions, material impacts on climate and biodiversity, dependency on fossil fuels energy and water demand, EPCs, forward-looking adaptive capacity such as transition plans, etc.;
  - ii. for **social and governance risks:** compliance with and due diligence on social standards, governance practices,…

Methodo-logies

Combination of three methodologies to assess ESG risks across time horizons, supported by **Key Risk Indicators:**

- **Exposured-based:** assess the exposure of their counterparties' activities and key assets to ESG factors (including risk factors and mitigants). Considering ESG factors into overall assessment of default risk of a borrower and, where justified by their materiality, embedded in the risk indicators, internal credit scoring or rating models, as well as the valuation of collateral.
- **Portfolio-based:** use of at least one portfolio alignment methodology to assess the degree of alignment of institution's portfolios with climate-related sustainability targets. Measuring the gap between existing portfolios and benchmark scenarios and its financial impacts[3].
- **Scenario-based**: perform climate/environmental scenario-based analyses.

1. Sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006.Exceptions may be considered if it is justified by institution.
2. Where data from counterparties and public sources is not available, institutions should have remediating actions (e.g. estimations/ or data providers)
3. List of sectors with portfolio alignment required: power; fossil fuel combustion; automotive; aviation; maritime transport; cement, clinker and lime production; iron and steel, coke, and metal ore production, chemicals.

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ii) Minimum standards and reference methodology for the management and monitoring of ESG risks

ESG risks management principles	• Embedding **of ESG risks within the regular risk management framework, systems and processes** ensuring consistency with the overall business and risk strategies, including policies and limits. • **Manage and mitigate ESG risks** over the short, medium and long term through **risk management tools.** • Tools should be considered, among others, **engagement** with counterparties, **financial or conditions terms or pricing** adjustments, ESG embedding within **global, regional and sectoral risk limits, diversification** of lending portfolios or financing reallocation to better ESG profiles.
Strategies & Business Models	• Consider **ESG risks** when **developing and implementing business and risk strategies**. • Understand how **ESG risks can impact** the **company's business model** and its **strategic objectives.** • Formulating and monitoring **ESG risk-related strategic objectives** and related **Key Performance Indicators** based on insights **from portfolio alignment, environmental scenario analyses and stress testing.**
Risk appetite	• Clearly define **all material ESG risks** to which the institution is exposed and the type and extent that it is **willing to assume**. • Set **risk appetite** and associated **KRIs** are appropriately **cascaded down** within institution, including limits, thresholds and exclusions. • At least consider **metrics listed by EBA** with backward-looking and forward-looking views.
Internal culture, capabilities & controls	• Clear **communication from the management** body ('tone from the top') and appropriate measures to **promote knowledge of ESG factors** and risks **across the institution**, as well as **awareness** of the institution's **ESG strategic objectives and commitments.** • Ensure, through training policies, that management body and staff are **adequately trained** to understand implications of **ESG factors.** • Embed ESG risks into **internal control frameworks** across the **three lines of defense** with a clear definition and assignment of responsabilities and reporting lines.

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Annex 10: Draft Guidelines on the management of ESG risks
EBA requirements

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ii) Minimum standards and reference methodology for the management and monitoring of ESG risks

ICAAP/ILAAP	• **Material effects of ESG risks** to be embedded in ICAAP and ILAAP considering appetite, thresholds and limits set for material impacts to **identify and measure internal capital needs.** • Include in the ICAAP a **forward-looking** view of institution's capital adequacy **under an adverse scenario** that includes environmental elements specifying any changes to their business plan derived from climate risk stress testing, in line with EBA Stress Testing Guidelines[1].
Credit risk policies & procedures	• Embedding **in credit risk policies** to ensure clear **processes to identify, measure, manage, mitigate and monitor** impacts from ESG. • Implement **quantitative credit risk metrics** covering most significant client segments, type of collaterals and risk mitigation instruments. • Ensure that **credit sectoral policies,** reflecting ESG risks, are **cascaded down** to business lines and business relationships officers.
Other risk policies	**Assess current and potential future** ESG-related impacts on **market, liquidity & funding, operational, reputational & concentration risks**: • **Market**: how ESG risk affect the **value of the financial instruments,** evaluate the **potential risk of losses and increased volatility in their portfolio's value,** and establish effective processes to control or mitigate the impacts. • **Liquidity**: how ESG risks affect **net cash outflows** or the value of assets comprising their **liquidity buffers** and, where appropriate, incorporate these impacts into the calibration of their buffers or risk management framework. Also assess the **availability and stability of funding sources** at different time horizons and normal/adverse conditions (including potential impacts of ESG reputational risks). • **Operations: how ESG risks affect regulatory risk event types** and the potential impacts on **conduct risks, litigation and reputational risk** related to **lending and investing** in business which may be prone to **ESG-related controversies**. • **Concentration:** assess of **shares of exposure affected** relative to total & if ESG-related concentration **aggravates its financial vulnerability**.
Monitoring	• **Monitor** ESG risks on a **continuous basis** through **internal reporting framework** to senior management, implementing a granular monitoring of counterparties, exposures and portfolios. Include ESG factors in **regular credit reviews for medium-sized and large counterparties**. • Set **Early Warning Indicators** and **backward & forward-looking ESG risk metrics** such as historical losses related to ESG risks or share of income stemming from business with counterparties that contribute to climate change.

1. EBA Guidelines on institutions stress testing (EBA/GL/2018/04). Paragraph 90.

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Annex 10: Draft Guidelines on the management of ESG risks
EBA requirements

EBA CP Draft Guidelines on ESG Risks management is split by three building blocks: i) reference methodology for identification and measurement of ESG Risks; ii) minimum standards and reference methodology for the management and monitoring of ESG risks; iii) Plans in accordance with CRD6

iii) Plans in accordance with Article 76(2) CRD6

Key principles	• Institution's **transition plan** should **address and mitigate** the portfolios and exposures **materially exposed to ESG risks**, covering those that **highly contribute to climate change** (Sectors A to H, plus L) unless institution may provide an appropriate justification. • Ensure that **short, medium and long-term objectives and targets interact and are well-articulated,** including long-term objectives translate into medium-term strategies and that short term financial metrics or targets are consistent (e.g. profitability indicators, cost of risk, …) • **Transition plan** should be properly reflected in **risk appetite** (PIA[1], limits) aligned with business strategy in different time horizons and their **internal capital needs**, considering potential deviations over planned trajectory under adverse scenarios.
Governance	• **Roles & responsibilities:** assign ESG responsibilities at 3LoD. Approval/oversee of plan implementation by management bodies. • **Internal process and capacity:** regular **interaction** at **all levels of the organization** to ensure that insights and feedback from internal stakeholders. Ensure **sufficient capacity, expertise and resources** to develop, implement and monitor their transition planning process, identifying existing gaps in skills and expertise and take **remedial actions where necessary**.
Metrics, Targets & Climate scenarios	• **Set and monitor the targets with cascade these down to the sectoral/portfolio levels** at least for the **materially exposed sectors and portfolios** more subject to these risks (different time horizons and **applying scenarios and patways consistent across the organization**). • **Use of metrics:** financed GHG emissions, portfolio alignment metrics, climate-related income, energy efficiency of real estate collateral and % counterparty engagement on sustainable economy. **Also require** other metrics to assess the **resilicience to physical risk**, management of **nature and biodiversity-related risks**, **ESG-related concentration and reputational risks**.
Transition Planning	• Clearly lay out **processes** and implement **objectives and targets for transition** such as integrating ESG factors in loan origination policies, changes in strategic financing choices or development of new products or services. • Define **data processes** to collect verify and aggregate data needed to **formulate and monitor transition plans.** • **Client engagement** through tools such as reviewing counterparties ESG risk profile and transition plans and actions to promote the client transition through adjusting product offering or agreements to enhance the counterparty's transition. • Assess the **implications of transition process** (e.g. revenues impact) and **align the financing activity evolution** with **risk management policies.**

1. Profitability impact assessment.

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Annex 10: Draft Guidelines on the management of ESG risks
Data requirements

Environmental risks	Social & Governance risks
• **Geographical location of key assets and exposure** to environmental hazards (e.g. floods, water stress, soil erosion)	• **Compliance with and due diligence on social standards** (ej. ILO conventions or World Bank's Environmental and Social Standards)
• **Current & forecasted GHG scope 1, 2 and 3 emissions** in absolute and/or intensity such as per million-euro revenues or per units of production	• **Governance practices**
• **Material impacts on the environment,** including **climate change and biodiversity**, and related **mitigation or adaptation policies**	• **Adherence to voluntary or mandatory social and governance reporting**
• **Dependency on fossil fuels**, either in terms of economic factor inputs or revenue base	• **Negative impact on local communities,** including due diligence policies to prevent that
• **Energy and water demand and/or consumption**, either in terms of economic factor inputs or revenue base	• **Litigation risks including imminent, pending or completed litigation** case related to social or governance issues and due diligence policies
• **Energy performance certificates** and score in kWh/m² for real estate	
• **Adherence to voluntary or mandatory climate/environmental reporting**	
• **Litigation risk including imminent, pending or completed** litigation case related to environmental issues	
• **Forward-looking adaptive capacity,** including transition plans prepared by non-financial corporates	

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Annex 10: Draft Guidelines on the management of ESG risks
List of metrics (1/2)

Metrics of Plans in accordance with Article 76(2) CRD6 (to be considered for risk apettite)
• **Financed GHG emissions** by scope 1, 2 and 3 emissions split by sectors (absolute emissions and intensity of emissions, relative to revenues or units of production)
• **Portfolio alignment metrics** (projections and (mis)alignment with a pathway consistent)
• **Amount and/or share of income** related to business with counterparties operating in **sectors that highly contribute to climate change**
• Breakdown of **real estate portfolio by energy efficiency level**
• **% counterparties** with whom the institution **actively engages** regarding **adaptability and resilience to the transition** to a sustainable economy
• **% positive outcomes** with whom the institution **actively engages** regarding **adaptability and resilience to the transition** to a sustainable economy
• **Other metrics** to support risk assessment and strategic steering related to: (i) **resilience to physical risk;** **(ii) management of environmental risks** other than climate-related (**nature and biodiversity);** **(iii) ESG-related concentration risks;** **(iv) ESG-related reputational risk**

Risk appetite

Metrics & targets

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Annex 10: Draft Guidelines on the management of ESG risks

List of metrics (1/2)

Monitoring Indicators
• **Historical losses and forward-looking estimate(s) of exposures-at-risk and (potential) financial losses** related to ESG risks
• **Amount and share of income** (interest, fee and commission) stemming from business relationships with counterparties **operating in sectors that highly contribute to climate change**
• **Gap between existing portfolios vs benchmark portfolios** consistent with the **climate target applicable**
• **GHG financed emissions,** at least for sectors towards which the institution has material exposures
• **% counterparties** with whom the institution has **engaged on ESG risks** matters, supplemented with the **results and/or outcomes of such engagement**
• **% environmentally sustainable exposures financing activities** that contribute or enable the objective of **climate change mitigation vs total exposure** • **% carbon-intense exposures** over total institution's exposures Also for **large institutions**: o **% Taxonomy-aligned exposures for other objectives of the EU Taxonomy vs total exposure** o **% exposures detrimental** to the achievement of these objectives For exposures detrimental to the objective of biodiversity, assess material negative impacts of their counterparties' production sites, processes or products on biodiversity.
• **Concentration risk related to physical risk drivers** (e.g. measurement of exposures and/or collaterals in high flood risks or wildfire risks areas)
• **ESG-related litigation claims** in which the institution has been, is or may become involved
• **Progress against all institution's targets** set in relation to ESG risks and ESG objectives

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Global context

Cross regulatory trends

Financial Regulatory trends

Why MS?

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1. *Social Taxonomy*
2. *Environmental Taxonomy*
3. *TNFD Framework*
4. *ISSB Sustainability-related and climate - related disclosure requirements*
5. *Corporate Sustainability Reporting Directive*
6. *New rules on Climate-related disclosures*
7. *Corporate Sustainability Due Diligence Directive*
8. *Supervisory expectations*
9. *ECB Supervisory Priorities*
10. *Draft Guidelines on the management of ESG risks*
11. *Methodology for a Climate risk stress test*
12. *Pillar 3 Climate*
13. *Pillar 3 ESG*
14. *Enhancement and Standardization of Climate-Related Disclosures for Investors*

Annex 11: Methodology for a Climate risk stress test

Context

The growing relevance of climate-related risks is giving rise to a context in which supervisory bodies are conducting exercises to assess the resiliency of the financial sector to these risks in the short and long term. In this context, the ECB has published the Climate risk stress test methodology which outlines the main characteristics of the 2022 climate risk stress test

After the Paris Agreement in 2015, the concern about the climate-related risks has come to the forefront of the **industry and the regulators**. The exposure to transition and physical risks can have a **significative impact to the banking sector**, increasing the credit, market, operational, or liquidity risks, among others.

Therefore, **many regulatory and supervisory bodies** have begun to develop methodologies and conduct **scenario analysis and stress testing exercises**[1] (for example, the ACPR, in France, the BoE in UK, DNB in The Netherlands, the EBA pilot sensitivity analysis exercise). The objective is to understand the magnitude and the potential impact of these risks in the individual institutions and in the financial sector.

For the development of methodologies and the data used in the exercises, supervisors are **leveraging on the many global initiatives** working for the understanding of these risks, its measurement and management: the UN initiatives, the IPCC, working groups for development of methodologies (2DII, PCAF, etc.); many scientists, research groups, and public or private agencies for the collection of data, development of models and climate scenarios (IEA, NGFS, PIK, DDPP, etc.); publications and advice from regulatory bodies (BCBS[2], NGFS[3]).

In addition, **the EBA and the ECB have issued draft regulation and guidance** that includes this topic: the EBA Discussion paper on management and supervision of ESG risks for credit institutions and investment firms includes stress testing requirements, and the ECB Guide on climate-related and environmental risks incorporates a description on ECB expectations for institutions relative to climate-related and environmental risks.

European Central Bank
Banking Supervision

Finally, the **ECB intends to conduct a full supervisory assessment** of all climate-related and environmental risk management practices and a **supervisory stress test on climate risk in the first half of 2022**. To this end, the ECB has already started a supervisory dialogue with the institutions and has published the methodology to carry out the exercise.

[1] For further details on supervisory declared intentions on stress testing, see annex I
[2] BCBS: Climate-related financial risks – measurement methodologies. April 2021
[3] NGFS: Guide to climate scenario analysis for central banks and supervisors. June 2020

Access the entire document

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Annex 11: Methodology for a Climate risk stress test

Executive summary

The ECB has outlined the characteristics of the 2022 climate risk stress test exercise in order to provide banks with guidance on how to conduct the exercise. The main characteristics are: i) the quality assurance process and ii) the stress test modules.

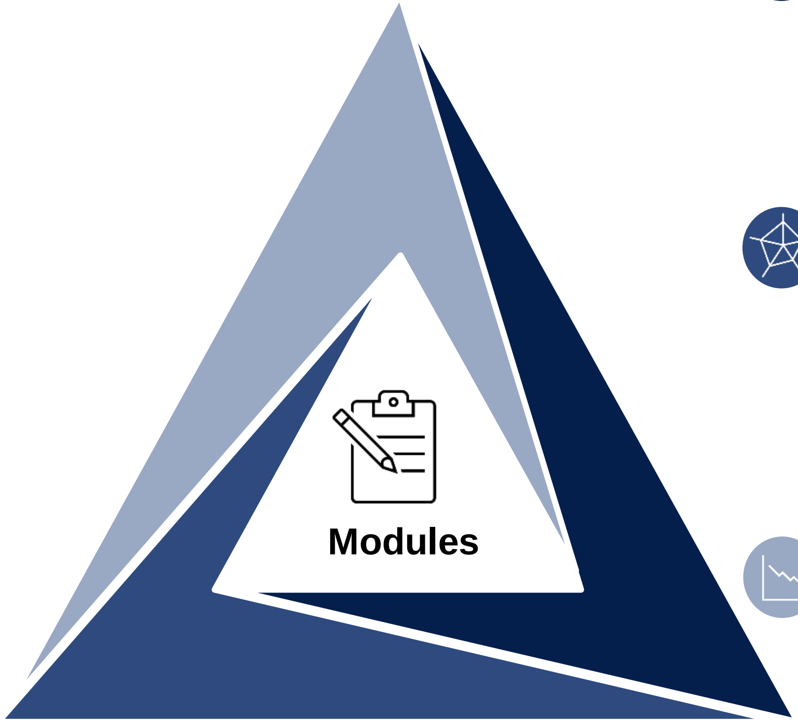
The quality assurance process serves to enhance the supervisory understanding of what **climate-relevant data banks** have available and the **limitations when assessing climate-related risks.**

Phase 1: Data collection

- Banks are required to complete the template and produce results based on the instructions set out in the methodology[1].

Phase 2: Quality assurance

- The ECB will analyse the information submitted by banks to ensure that the submissions are i) of a **satisfactory quality**, ii) aligned with the **instructions** set out in the methodology, and iii) provide **comprehensive and reliable results** for the prescribed assumptions and scenarios.



Module 1: Questionnaire on the stress test framework

The purpose of this module is to gain an illustrative overview of the institution's internally available stress testing **capability and capacity** including its climate risk **stress testing framework, management and modelling** practices.

Module 2: Climate risk metrics

The purpose of this module is to shed light on banks' **analytical and data capabilities** regarding climate risk. More specifically it provides e insights into the **sensitivity of banks' income to transition risk**, their exposure to carbon-intensive industries and, in that sense, the sustainability of the banks' business mode.

Module 3: Bottom-up stress test projections.

The purpose of this module is to describe the methodology for the **starting point data and projections** that banks must provide for the bottom-up stress test exercises targeting **transition risk and physical risk.**

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The stress test exercise covers three modules (questionnaire on the stress test framework, stock-take on emissions, and bottom-up exercise)

Module 1: Framework questionnaire

Description

Qualitative questionnaire on 11 sections:

1. Existence and use of ST exercises
2. Governance and inclusion in Risk Appetite
3. Integration into strategy
4. Methodology used
5. Scenarios
6. Data and sources of information
7. Inclusion on the ICAAP
8. Future development plan
9. Role of Internal Audit
10. EU subsidiaries of non-EU institutions
11. Methodological assumptions and choices

Requirements

- Completion of the questionnaire
- No additional documentation requirement

Module 2: Stock-take on emissions

Description

Estimation of two metrics:

1. Exposure to transition risks: Income (interest income, fees, commissions) from GHG intensive industries per sectors

2. Financed carbon intensity, separating Scope[1] 1, 2 and 3

Scope:
- Non-financial corporate (non SME)
- Metric 1: 80% gross interest income, max 5 countries. Reference date: from Jan-21 to Dec-21
- Metric 2: 15 counterparties per 22 sectors. Reference date: average revenues for 2018,2019 and 2020, emissions data as of December 2020

Requirements

- Aligned with FINREP
- Groups of sectors: NACE – level 2
- Documentation:
  - Actions carried out by the bank
  - Emission calculation approach

Module 3: Bottom-up climate ST

Description

Risk projections:

1. Credit[2] (impact on impairment; static balance sheet in s/t, dynamic in l/t):
   - Transition: baseline and disorderly (3y), orderly, disorderly and hot house[3] (10-30y)
   - Physical (EU Corporates & SMEs and real state and mortgages): drought and heatwave, flood (1y from 1Jan22)
2. Market:
   - Bonds, equity and directly connected derivatives in the HFT
   - Shock on valuation
3. Operational: Qualitative questionnaire regarding operational and reputational risk

Requirements

- Some banks don't submit projections
- Groups of sectors: NACE – level 2
- For mortgages, by EPC groups
- Documentation:
  - Assumptions and methodology
  - Consistency w/ public commitments

[1] Scope 1 directly emissions; Scope 2: indirectly from energy consumption; Scope 3: other indirect emissions along organisation's value chain.
[2] Includes both transition and physical risks.
[3] NGFS scenarios, published on 7-june-2021

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2022 ECB climate stress test exercise

The climate stress test methodology considers different scenarios with different methodologies and time horizons

Scenarios

- **Transition risks[1]:** short term (3 years) under baseline and stress and long term (30Y scenarios) under orderly, disorderly and hot-house scenarios
- **Physical risk[2]:** short term (1 year) under baseline and stress scenarios for drought and heatwave and flood scenarios

	Exposures	Scenario	Projections	Horizon	Segment	Balance sheet
Transition risk	Global (Cover al least 80% EAD, max. countries 5 in short term, 1 country in long term)	Short term stress	Baseline	3 years (2022 – 2024)	Corporate Loans Incl. SME, CRE + mortgages	Static balance sheet
			Stress (disorderly)			
		Long term paths	Orderly	30 years (2030, 2040, 2050)	Corporate Loans Incl. SME, CRE + mortgages	Dynamic balance sheet
			Disorderly			
			Hot-house			
Physical risk	EU Countries (Cover al least 80% EU EAD, max. 5 countries)	Drought & heat risk	Baseline	1 year (2022)	Corporate Loans (Incl. SME)	Static balance sheet
			Stress			
		Flood risk	Baseline	1 year (2022)	Mortgages + CRE loans	
			Stress			

[1] Transition risk refers to financial losses that an institution may incur, directly or indirectly, as a result of the process of adjustment towards a lower carbon and more environmentally sustainable economy.
[2] Transition risk refers to financial losses that an institution may incur, directly or indirectly, as a result of the process of adjustment towards a lower carbon and more environmentally sustainable economy.

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Annex 11: Methodology for a Climate risk stress test
Related normative

The stress test exercise covers three modules with their corresponding templates to be completed

Module	Template name	Topic	Description
	Input	*Input*	Countries of bank's main exposures and NACE sectors of bank's main exposures
Module 1	***M1 Questionnaire***	*Qualitative assessment*	Questionnaire on climate stress test framework
Module 2	***M2_Metric 1***	*Metric 1*	Information for **Income, Fee & Commissions, Exposures**
	M2_Metric 2	*Metric 2*	Information for **counterparties' emissions** - Calculation of GHG metric by scope, amount of scope 1, 2 and 3 emissions and counterparties' revenues for the last 3 years
Module 3	***M3_TR_ST_CR***	*Short-term Transition risk Credit risk*	Historical data and projections on **credit risk parameters**, **REA, exposures** and **provisions** for the main 5 countries detailed by **NACE sector** (corp) and **EPC** (real estate) and under the **baseline** and short term **disorderly** scenario (2021 – 2024)
	M3_TR_ST_MR	*Short-term Transition risk Market risk*	Historical data and projections on **market risk parameters** divided into **short and long positions**
	M3_TR_LT_CR	*Long-term Transition risk scenarios credit risk*	Historical data and projections on **credit risk parameters, REA, exposures and provisions** for the primary country of loan activity detailed by **NACE sector** (corp) and **EPC** (real estate) under the long term **scenarios** (2030, 2040 and 2050)
	M3_TR_LT_CR_inputs	*Dynamic balance sheet qualitative assessment*	Questionnaire on dynamic balance sheet approach
	M3_PR_DH_CR	*Physical risk Drought & Heat Credit risk*	Historical data and projections on credit risk parameters, REA, exposures and provisions for the main 5 countries detailed by NACE sector and under baseline and drought and heat scenario (1Y projections)
	M3_PR_FL_CR	*Physical risk Flood risk Credit risk*	Historical data and projections on credit risk parameters, REA, exposures and provisions for the main 5 countries detailed by probability of flood area and under baseline and flood scenario (1Y projections)
	M3_op_rep_assessment	*Operational /Reputational Risk qualitative assessment*	Questionnaire on operational/reputational risk approach

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Annex 11: Methodology for a Climate risk stress test

2022 ECB climate stress test exercise

Tight calendar to comply with all the requirements to be completed during the preparation of the exercise phase

Calendar

Data quality and quality assurance
(continuous interaction with the ECB during this period)

May '21	15th Oct' 21	Dec21-Jan22	Beg. Mar'22[1]	End Mar'22[1]	May'22[1]	Jun'22	Jul '22
Methodology publication and preliminary templates	Final methodology and templates publication	Scenarios publication	Starting point and historical information	1ª submission of projections and methodology note	2ª submission of results	Final submission to the ECB	Publication of results

[1] Preliminary dates based on previous EBA wide stress test exercises.

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Annex 11: Methodology for a Climate risk stress test
Supervisory declared intentions for stress testing exercises

The 2022 ECB climate stress test exercise implies several challenges for the entities related to the coordination of the exercise, qualitative information requested, data, models and methodologies, tools and the development of the exercise

Coordination

- Coordination of **several areas involved**
- **Define the roles and responsibilities of the areas involved**
- New and complex project being key to **organize it in an efficient way,** defining the **working plan and the workstreams**

Qualitative information

- **Actions plans** to achieve the **integration** into the **management**: ST framework, Risk Appetite, RIA, ICAAP, Internal Audit, …
- Some of the questions refer to **ongoing / TBD initiatives** to comply. It is important to ensure the **consistency with ECB director plan**
- **Tight deadlines** to ensure changes performed, approved and in place **previous to launch of the Climate ST exercise**

Data

- **Review** and **adapt current data dictionary** for ST exercises to include new metrics
- **Availability of** data for complete the modules 2 (indicators) and 3 (projections): **scope** (income by sector and country / GHG emissions by cpty), **metrics** (emissions, EPC rating,etc)**, segmentation** (CNAE, NUTs) **and granularity** (cpty / economic group)
- **Coordination and dependency of units** for the extraction of the data and cover the gaps
- **Tactical approaches** for the **resolution** of the **data gaps and data quality issues** identified
- Data **aligned with regulatory reports:** prudential (COREP), financial (FINREP) and climatic (Pillar III on ESG)

Models and methodology

- **Different scenarios with different methodology and time horizon:** 1) s/t for baseline, disorderly (3Y) –transition scenarios–, physical risks: drought and heatwave, flood (1Y) and operational events; 2) l/t for the NGFS transition scenarios (10-20-30Y)
- **Dynamic balance sheet** implies coordination with **business** to **forecast exposures** based on their **decarbonization strategy**
- **Lack of historical data and lack of references** for modeling the interactions between climate, macro and financial sector
- **Tactical approach (alternative methodologies and proxies) to define the methodology** based on current one in case of lack of models or data

Tools

- **High impact on the adaptation of current** ST **tools**
- **Dependency on the internal projections methodology** could imply **tight deadlines** to adapt the tools

Development of the exercise

- **Tight deadlines to comply to the tentative calendar** (similar calendar as the EBA ST 2021 exercise)
- **No availability of regulatory reports** (COREP, FINREP) until the **beginning-mid** of **February**
- **No sensitivity on results and evaluation process**
- Qualitative outcome could be a **potential factor** into the **SREP** (Pillar 2 Requirement (P2R))

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Annex 11: Methodology for a Climate risk stress test
Related Risks associated with climate change

Many regulators and supervisors are focusing on the development of climate stress testing methodologies, for its incorporation as a supervisory tool

OBJECTIVE OF STRESS TESTS

- Multiple central banks and banking regulators aim to add climate-related risk scenarios to their Stress Test frameworks, with the objective of **understanding the impact of these risks on the financial system as a whole**, or financial institutions and the impact on balance sheets[1]:

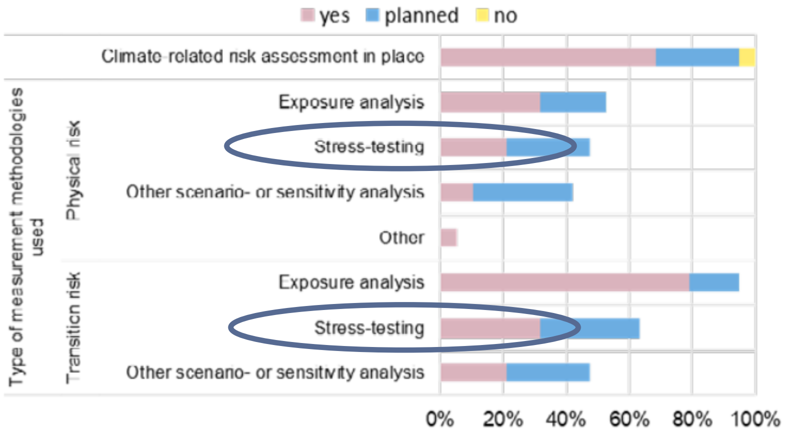
Examples of how central banks and supervisors assess different risks

	Objective	Types of risk assessment
A	Assess financial firm-specific risks	Stress testing, challenging firm capital adequacy assessments
B	Assess financial system-wide risks	Stress testing, research on individual transmission channels
C	Assess macroeconomic impacts	Macroeconomic forecasting, research on structural changes
D	Assess risks to own balance sheet	Credit and market risk analysis, stress testing

DECLARED INTENTION FROM SUPERVISORS

- Supervisors have expressed their intention of develop climate stress testing methodologies in the near term[2].
- Banks' transition risk scenario analysis tends to focus on impacts to credit parameters for counterparties belonging to specific sectors.
- Banks' physical risk analysis tends to focus on corporate and household (particularly mortgage).

Types of measurement methodologies planned or in use:



[1] NGFS: Guide to climate scenario analysis for central banks and supervisors. June 2020
[2] BCBS: Climate-related financial risks – measurement methodologies. April 2021

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Global context

Cross regulatory trends

Financial Regulatory trends

Why MS?

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1. *Social Taxonomy*
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3. *TNFD Framework*
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10. *Draft Guidelines on the management of ESG risks*
11. *Methodology for a Climate risk stress test*
12. *Pillar 3 Climate*
13. *Pillar 3 ESG*
14. *Enhancement and Standardization of Climate-Related Disclosures for Investors*

Annex 12: Pillar 3 Climate
General overview

In November 2023 the BCBS published its first draft on climate-related financial risk disclosure (Climate Pillar 3), to be implemented by 1 January 2026

Context

- The BCBS recognises that disclosure requirements will accelerate the availability of climate-related financial information and facilitate forward-looking risk assessments by banks, and for this reason it aims to incorporate a reasonable level of flexibility into a future framework. The BCBS has published a consultation paper on disclosure of climate-related financial risks by banks, which summarises the BCBS's work to assess the prudential rationale for potential disclosure requirements on climate risk.

Main content

Disclosure of qualitative information

The BCBS is seeking input on the disclosure of qualitative information by banks regarding their **governance, strategy, risk management and concentration risk management** in relation to climate-related financial risks.

Disclosure of quantitative information

The BCBS proposes the disclosure of a number of metrics in the form of templates, such as exposures and emissions by sector, exposures subject to physical risk by geographical area, mortgage exposures by energy efficiency level; emissions intensity per physical output and sector; and facilitated issuance related to capital markets and financial advisory activities.

Next Steps

- Comments should be submitted by 29 February 2024. The BCBS has a view to publishing a revised or final proposal in the second half of the 2024. The BCBS would welcome views on the feasibility of a potential **implementation date of 1 January 2026**, one year after the effective date proposed by the ISSB and after the expiration of the ISSB's proposed transitional arrangements.

Qualitative information on climate-related financial risks

Table CRFRA
Qualitative info. on governance, strategy and risk management

Table CRFRB
Qualitative info. on transition, physical and concentration risk management

Quantitative information on climate-related financial risks

Transition risk

Template CRFR1
Exposures and financed emissions by sector

Template CRFR3
Real estate exposures in the mortgage portfolio by energy efficiency level

Template CRFR4
Emission intensity per physical output and by sector

Template CRFR5
Facilitated emissions related to capital markets and financial advisory activities by sector

Physical risk

Template CRFR2
Exposures subject to physical risks

Access to Document

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Annex 12: Pillar 3 Climate
Disclosure requirements: Table CFRA

Long name: Qualitative information on climate-related financial risks (governance, strategy and risk management)

Purpose | Description of the bank's **governance processes, controls and procedures** used to monitor, manage and oversee climate-related financial risks, including how these identified climate-related financial risks affect the business model, strategy and decision-making of the bank.

Scope | TBD	**Content |** Qualitative information	**Frequency |** Annual	**Format |** Flexible

Banks must describe:

Governance	Strategy	Risk management

• Governance structure responsible for **oversight**, including a breakdown of responsibilities as reflected in policies.
• Board ensuring of appropriate **skills and competencies** to oversee related strategies.
• **Board reporting**: How and how often
• How climate-related financial risks are **considered** when overseeing the bank's **strategy**, its decisions on major transactions, and its risk **management processes** and related **policies**
• **Management's role** in the governance processes, controls and procedures used to monitor, manage and oversee climate-related financial risks (delegated vs supporting functions).
	• Climate risks that could **reasonably be expected to affect prospects**, explaining:
	  • Nature: physical / transition risk
	  • When: short, medium, long term
	• **Current and anticipated effects on business model and value chain**: description and concentrations
	• **Current and anticipated effects of material climate risks on strategy and decision-making**, including its climate-related **transition plan**.
	• Current and anticipated effects on **financial position, financial performance and cash flows**.
	• **Climate resilience** of strategy and business model to climate-related changes, developments and uncertainties.
		• **Processes and related policies used to identify, assess, prioritise and monitor climate risks** (data sources, climate scenario analysis, materiality criteria).
		• The extent to which and how the processes for identifying, assessing, prioritising and monitoring climate-related financial risks are **integrated into and inform the overall risk management process**.

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Annex 12: Pillar 3 Climate
Disclosure requirements: Table CFRB

Long name: Qualitative information on climate-related financial risks (transition risk, physical risk and concentration risk)

Purpose | Description of the bank's governance processes, controls and procedures used to monitor, manage and oversee climate-related financial risks.

Scope | TBD	**Content |** Qualitative information	**Frequency |** Annual	**Format |** Flexible

Banks must describe:

Transition risk	Physical risk	Climate-related concentration risk

• The extent to which financing is **supporting** counterparts in **climate change mitigation and adaptations: types of instruments** used, nature and type of **projects financed** as well as any other relevant information to help users understand the bank's climate risk management framework.
• Plans to implement **financed emisions methodologies** to estimate and disclose this information will be disclosed (where not yet estimated).
	• Details of the methodology used to determine exposures subject to physical risk impacts:
	  • Selected climate-related **chronic and acute events**
	  • Criteria to determine the **geographical breakdown/ granularity** to assess the physical risk stemming from each climate-related event
	  • **Sectoral considerations** made in line with the bank's portfolio
	  • **Time horizons and scenarios**
	  • Exposure subject to physical risk assignment, based on the **geographical location of the activity** of the counterparty
		• Potential effects of exposures to counterparties associated with **high transition or physical risks** on the bank's overall risk and financial performance;
		• Process(es) in place to identify **vulnerable concentrated exposures** and assess the likelihood and effects associated with such risks;
		• Monitoring of exposures concentrated within sectors or geolocations
		• Effects on **strategy and decision-making**, including how the bank is responding to and mitigating climate-related concentration risks.

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Annex 12: Pillar 3 Climate
Disclosure requirements: Table CRFR1

Long name: Transition risk – exposures and financed emissions by sector

Purpose | Provide an overview of a banks' **gross carrying amount by sector together with associated financed emissions, credit quality and maturity ladder**. Provide supplementary information on **off-balance** sheet items by sector.

Perimeter | Corporates and retail SMEs; loans, debt securities and equity instruments in the banking book

Accompaning narrative | Qualitative information about sectors materiality assessment; non-performing exposure criterion; finance emissions methodology and sources; any significant changes over the reporting period and the key drivers of that changes.

Scope | TBD

Content | Quantitative information

Frequency | Annual

Format | Fixed (columns) & flexible (rows)

Classification by sector according to the **Global Industry Classification Standard (GICS) with a 6 or 8-digit industry-level code,** while immaterial exposures to any sector would be aggregated as part of "other sectors" except for exposures to the 18 sub-sectors as defined by the Task Force on Climate-related Financial Disclosures (TCFD).

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		On-balance sheet items														Off-balance sheet items
		Gross carrying amount			Allowances		Maturity					GHG financed emissions				
		Amount	%	Of which: non-performing exposures	Total allowances	Of which: non-performing exposures	<= 5 years	> 5 years <= 10 years	> 10 years <= 20 years	> 20 years	Average weighted maturity	Scope 1, Scope 2 and Scope 3 (MtCO2e)	Of which: Scope 3 (MtCO2e)	GHG forecast Scope 1, 2 and 3 (MtCO2e)	GHG forecast – reference year	Amount
1	**Sector**															
2	**Industry group**															
3	**Industry**															
4	Sub-industry															
...	...															
	Other sectors															
TOTAL			100													

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Annex 12: Pillar 3 Climate
Disclosure requirements: Table CRFR2

Long name: Physical risk – exposures subject to physical risks

Purpose | Provide an overview of a bank's gross carrying amount **subject to climate change physical risks** including both chronic and acute events **split by geographical region** or location subject to climate change physical risk.

Perimeter | Corporates and retail SMEs; loans, debt securities and equity instruments, as well as loans collateralised by residential or commercial immovable property in the banking book

Accompaning narrative | Details of the methodology used to determine which exposures are subject to the impact of climate change physical risk; any significant changes over the reporting period and the key drivers of that changes

Scope | TBD

Content | Quantitative information

Frequency | Annual

Format | Fixed (columns) & flexible (rows)

		a	b	c	d	e	f	g	h	i	j
		Gross carrying amount			Allowances		Maturity				
		Amount	%	Of which: non-performing exposures	Total allowances	Of which: non-performing exposures	<= 5 years	> 5 years <= 10 years	> 10 years <= 20 years	> 20 years	Average weighted maturity
1	Geographical region or location subject to climate change physical risk										
2	Of which: corporates										
3	Of which: loans collateralised with residential or commercial immovable property										
...	...										
X	**Total geographical regions or locations subject to climate change physical risks**										
Y	Total geographical regions or locations not subject to climate change physical risks										
Z	Total geographical regions or locations where the bank is unable to judge whether or not they are subject to climate change physical risks										
	TOTAL		100								

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Annex 12: Pillar 3 Climate
Disclosure requirements: Table CRFR3

Long name: Transition risk – real estate exposures in the mortgage portfolio by energy efficiency level

Purpose | To breakdown banks' gross carrying amount by **level of energy efficiency** of the underlying collateral.

Perimeter | Loans collateralised by residential or inmovable property, and collaterals obtained by taking possession.

Accompaning narrative | The jurisdictional coverage of the information and whether there are legal requirements to measure the energy efficiency of buildings in each of the jurisdictions in which the bank operates; available information regarding the sources used; any significant change over the reporting period and the key drivers of such changes.

Scope | Mandatory when required by CAs[1]. **Content |** Quantitative information **Frequency |** Annual **Format |** Fixed (rows) & flexible (columns)

Real estate (RE) exposures and collateral in the mortgage portfolio may be **subject to transition risk as jurisdictions implement legislation to reduce RE greenhouse gas (GHG) emissions**.

Disclosure of this metric could assist market participants in assessing the extent to which the value of the underlying collateral may be negatively affected due to high emissions linked to low energy efficiency and if mortgage-backed borrowers may be obliged to invest in their RE assets to make them less carbon-intensive or more energy efficient, depending on jurisdictional requirements.

		a	b	c	d	e	f	g	h
		Total gross carrying amount	Level of energy efficiency						Without energy efficiency measurement
			0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500	
1	Loans collateralised by residential immovable property								
2	Loans collateralised by commercial immovable property								
3	Collateral obtained by taking possession: residential and commercial immovable properties								
4	**Total**								
5	Of which: level of energy efficiency estimated								

1. Competent Authorities. National supervisors at jurisdictional level.

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Annex 12: Pillar 3 Climate
Disclosure requirements: Table CRFR4

Long name: Transition risk – emission intensity per physical output and by sector

Purpose | To provide information on institutions financed **GHG intensity emissions** per physical output for those sectors where the bank is setting forecasts based on sector-specific policies.

Perimeter | Corporates and retail SMEs

Accompaning narrative | Significant sector exclusions, plans to implement methodologies to estimate and disclose this information. For each intensity metric: i) the methodology used to attribute absolute emissions and/or emissions intensity to banks' financing; ii) description of geographies and description of the sub-sectors; and iii) science-based benchmark considered to set forecasts. Any significant change over the reporting period and the key drivers of such changes.

Scope | Mandatory when required by CAs[1]. **Content |** Quantitative information **Frequency |** Annual **Format |** Fixed (columns) & flexible (rows)

Higher emission-intensity loan portfolio in sectors that may be exposed to transition risks, could have a higher climate-related financial risk from changes to, among other things, carbon taxes and other policies, technology and market and investor preferences or exclusions.

Physical activity emission intensity metrics could provide market participants with **useful context of emission intensity** as opposed to consideration of only absolute emissions, which may lack context based on the size of the bank's exposures to objectively assess the financed emissions of a bank.

		Reporting year			Forward-looking information					
		a	b	c	d	e	f	g	h	i
		Gross carrying amount	GHG intensity metric per physical output – selected unit of reference	GHG intensity metric per physical output value	GHG intensity metric per physical output (year A)	GHG intensity metric per physical output value for (year A)	GHG intensity metric per physical output (year B)	GHG intensity metric per physical output – value for (year B)	PiT distance	PiT distance reference year
1	**Sector**									
2	**Industry group**									
3	**Industry**									
4	Sub-industry									
...	...									
	TOTAL									

1. Competent Authorities. National supervisors at jurisdictional level.

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A | Annex 12: Pillar 3 Climate
Disclosure requirements: Table CRFR5

Long name: Transition risk – facilitated emission related to capital markets and financial advisory activities by sector

Purpose | Disclose emissions facilitated by banks related to **capital markets and financial advisory activities** by sector or economic activity

Perimeter | Corporates and retail SMEs to which they are providing capital markets/ financial advisory activities such as: a) underwritting; ii) advisory; and iii) securitisation

Accompaning narrative | Qualitative information on the materiality assessment of the sector exposures, methodology and sources used for the calculation of facilitated emissions and any significant change over the reporting period and the key drivers of such changes.

Scope | Mandatory when required by CAs[1]. **Content |** Quantitative information **Frequency |** Annual **Format |** Flexible

The Partnership for Carbon Accounting Financials (PCAF) has published its C**alculation method for facilitated emissions in respect of capital markets activities in December 2023**[2].

The BCBS has noted the potential complexity involved in the disclosure of facilitated emissions and invites views from market participants and banks on the practicality of such disclosures and possible alternatives to capture the climate-related financial risks associated with these types of activities.

		a1	b1	c1	d1	a2	b2	c2	d2	e	f
		Capital markets/financial advisory activity 1 (eg underwriting)				Capital markets/financial advisory activity 2 ...				**Total**	
		Amount	GHG facilitated emissions – Scope 1, 2, 3 (MtCO2e)	GHG facilitated emissions forecast – Scope 1, 2, 3 (MtCO2e)	GHG facilitated emissions – forecast reference year	Amount	GHG facilitated emissions – Scope 1, 2, 3 (MtCO2e)	GHG facilitated emissions – forecast Scope 1, 2, 3 (MtCO2e)	GHG facilitated emissions – forecast reference year	Amount	GHG facilitated emissions – Scope 1, 2, 3 (MtCO2e)
1	**Sector**										
2	**Industry group**										
3	**Industries**										
4	Sub-industry										
...	...										
	Other sectors										
TOTAL											

1. Competent Authorities. National supervisors at jurisdictional level.
2. PCAF launches a new Accounting and Reporting Standard for Capital Markets (carbonaccountingfinancials.com)

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Annex: BCBS's Pillar 3 Climate vs EBA's Pillar 3 ESG

BCBS' Pillar 3 Climate proposal is highly aligned with EBA's climate related disclosure requirements. Concentration risk qualitative information as well as facilitated emissions metrics are the main gaps between both disclosure frameworks[1]

BCBS P3 Climate item	EBA P3 ESG related item	Degree of alignment[1]	
Table CRFRA. Qualitative information on climate-related financial risks (governance, strategy and risk management)	Table 1. Qualitative information on Environmental risk		• EBA qualitative disclosure covers all ESG topics • Same first level classification (strategy, governance, risk management) but not fully aligned at data point level
Table CRFRB. Qualitative information on climate-related financial risks (transition risk, physical risk and concentration risk).	Transittion risk: templates 1, 3, 6-10 Physical risk: template 5 Concentration risk: Table 1		• Qualitative information on transition risk and physical risk embedded in the narrative accompaning EBA's quantitative templates. • Concentration risk partially covered by tample 1 risk management disclosure requirements.
Template CRFR1. Quantitative information on transition risk (exposures and financed emissions by sector)	Template 1. Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity		• Metrics in BCBS' proposal not in EBA's disclosure: GHG forecast, off-balance • Metrics in EBA's disclosure not in BCBS' proposal: impairments, environmentally sustainable (CCM exposures), EU's specific (companies excluded from EU Paris-aligned Benchmarks), • Other differences: EBA leverages on FINREP perimeter (non financial corporations vs corporates and retail SME) and on NACEs for sector activities (vs GICS).
Table CRFR2. Quantitative information physical risk (exposures subject to physical risks)	Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk		• Metrics in BCBS' proposal not in EBA's disclosure: details for regions not subject to physical risk and regions where the bank is unable to judge if it is exposed to physical risks • Metrics in EBA's disclosure not in BCBS' proposal: impairments, exposures by sensitiveness to impact from chonic, acute or both kind of climate change events. Corporates exposure breakdown by sector • Other differences: FINREP perimeter (non financial corporations vs corporates and retail SME) and on NACEs for sector activities (vs GICS).
Table CRFR3. Quantitative information on transition risks (real estate exposures in the mortgage portfolio by energy efficiency level)	Template 2: Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral		• BCBS requirements fully covered by EBA's disclosure. • Metrics in EBA's disclosure not in BCBS' proposal: EPC label breakdown, EU / Non-EU area breakdown
Table CRFR4: Quantitative information on transition risk (emission intensity per physical output and by sector)	Template 3: Banking book - Climate change transition risk: Alignment metrics		• EBA's disclosure specifies the benchmark scenario and year of reference, as well as the breakdown per relevant sectors
Table CRFR5: Qualitative information on transition risk (facilitated emissions related to capital markets and financial advisory activities by sector)	Not applicable		• Not required by EBA.

1 Furthermore, EBAs Pillar 3 ESG must be disclosed biannually.

Degree of alignment High Medium Low, not applicable

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1. *Social Taxonomy*
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3. *TNFD Framework*
4. *ISSB Sustainability-related and climate - related disclosure requirements*
5. *Corporate Sustainability Reporting Directive*
6. *New rules on Climate-related disclosures*
7. *Corporate Sustainability Due Diligence Directive*
8. *Supervisory expectations*
9. *ECB Supervisory Priorities*
10. *Draft Guidelines on the management of ESG risks*
11. *Methodology for a Climate risk stress test*
12. *Pillar 3 Climate*
13. *Pillar 3 ESG*
14. *Corporate Sustainability Due Diligence Directive*
15. *Supervisory expectations*

Annex 13: Pillar 3 ESG
Milestones

On 24 January 2022 EBA published its Final Report on the ITS on Pillar 3 ESG risks. With these templates, EBA aims to develop a single and complete framework of Pillar 3 under CRR, which integrates all the requirements of relevant information for prudential purposes

Calendar

Scope of Pillar 3 ESG

- **Reporting** of information on those **assets which are more exposed to the risks that institutions may face from the transition to a low-carbon and climate resilient economy** or **subject to climate change physical risk,** including those exposures towards non-financial corporates of banking of the institution by sector of economic activity.
- **Sequential approach**, in line with the approach that has been followed in the development of the Taxonomy Regulation and other relevant ESG initiatives in the EU (planned developments of other environmental objectives and social objectives).
- **Timing of disclosures,** with transitional and phase-in periods until June 2024, for certain issues (Scope 3 Emissions, ESG for corporations not subject to NFRD,...).
- **Proportionality,** taking into account the challenges to be faced when preparing the required ESG disclosures (use of proxies, Taxonomy compliance with EU criteria for objetives 1 and 2 for non-EU exposures, certificates and level of energy efficiency for non-EU exposures,...).

1. The ITS explicits that the results of the publication will be reviewed tentatively in 2024
2. This information shall be disclosed on an annual basis for the first year and semi-annually thereinafter. This means that the disclosure for the first year would be annual, and related to the disclosure reference date 31 December 2022

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Annex 13: Pillar 3 ESG

Overview of structure and main contents

12 quantitative templates transition risks (4), physical risk (1) and mitigation actions (7) related.
5 to be disclosed on March 2023 with reference date 31 December 2022
3 to be disclosed by 2024

Structure of Pillar 3 ESG Disclosure

Quantitative information[1]

Climate change transition risk

Template 1	Template 2	Template 3	Template 4
Credit quality of exposures by sector. Scope 3 Emissions. Maturity buckets	Loans collateralized by immovable property – by EPC	Alignment metrics on relative scope 3 emissions	Exposures in the banking book to top carbon intensive firms
D.22-Jul.24	D.22	D.22-Jul.24	D.22

Climate change physical risk

Template 5
Exposures in the banking book subject to physical risks
D.22

Mitigating actions

Template 6[1], 7 and 8 (NEW)	Templates 9.1-9.3 (NEW)	Template 10
Summary of GAR GAR Assets GAR KPI	Sumary of BTAR BTAR Assets BTAR KPI	Other mitigating actions
D.23	Jul.24	D.22

Qualitative information

Disclosure qualitative information ESG risks

Table 1	Table 2	Table 3
Qualitative info. on Environmental risk	Qualitative info. on Social risk	Qualitative info. on Governance risk
D.22	D.22	D.22

Main contents

- **Credit quality** of exposures by carbon-intensive and sustainable sectors and GHG emissions. Scope 3 emissions for oil, gas, and mining sectors shall start to be disclosed when available, from 2021 onward and additional sectors will be added subsequently until June 2024 (full requirement).
- **Energy efficiency** of the collateral and immovable property obtained by taking possession, for EU and non-UE countries.
- **Alignment metrics** on relative scope 3 emissions. Disclosure In accordance with institutions Paris Agreement sectoral alignment.
- Exposures to **top 20 carbon intensive firms in the World**
- Exposures subject to **physical risks**
- **Green Asset Ratio** (GAR): assets, KPI on stock and flows
- **Banking Book Taxonomy Alignment Ratio** (BTAR) assets, KPI on stock and flows
- **Other climate change mitigation actions**: bonds and loans by type of counterparty.
- **ESG qualitative information**: governance, business model and strategy, risk management.

1. First disclosure reference dates per template. New templates: GAR summary (T6) and BTAR templates.

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Annex 13: Pillar 3 ESG

Main changes - Final vs previous draft

NACE allocation might be different from FINREP, clarifications on finance emissions disclosure roadmap, EPC expanded to non EU countries, alignment metrics disclosure aligned with Paris agreement sectoral alignment, top polluting firms disclosure limited to top 20 in the word, simplified physical risk disclosure, trading book out of scope, GAR delayed, new BTAR

NACE	Additional details claryfing the relevant NACE to disclose. Implications in additional criteria to consider in the reconciliation with Taxonomy and FINREP relevant NACEs.
Financed emissions	Scope 3 finance emissions should be specifically disclosed. Clarifications on disclosure roadmap: oil, gas, and mining sectors shall start to be disclosed, when available, from 2021 onward and additional sectors will be added subsequently until June 2024 (full requirement).
Immovable properties	Certificates of EPC labels equivalences required for non-EU countries Buckets by Level of energy consumption should be estimated
Alignment metrics	Disclosure roadmap in accordance with institutions Paris Agreement sectoral alignment. Deeper IEA sectorization and corresponding NACE relation detailed. New alignment metrics are defined Also, target metric (3 years horizon) and the year of reference of the alignment metrics is requested
World's Top 20 Carbon Emitters	**Aggregated** exposure towards Top 20 carbon intensive firms in the world **over total exposure**. Top 20 EU and Top 20 Member Estate not needed anymore.

Credit Risk	Average PD not required anymore.
Market risk	Trading book excluded from the perimeter.
Physical risk	Breakdown by acute and chronic subtype of events deleted.
GAR	GAR disclosure delayed one year: December 2023 as new reference date New template for summary of the GAR is included (Template 6)
New KPI BTAR	New KPI Banking Book Taxonomy Aligned Ratio (BTAR) included with corresponding new templates 9.1, 9.2, and 9.3 Similar KPI to GAR, but including in the numerator of the ratio taxonomy compliant operations from counterparties not subject to NFRD (EU and non-EU)
Other mitigation actions	Further concretion about the kind of instruments to be reported: loans and debt secuirities not aligned with EU taxonomy.

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Annex 13: Pillar 3 ESG
Main challenges - Overview

Entities face the following challenges in order to obtain the necessary information for the Pillar 3 report

Interconnections

- **Different reports** in parallel with different **synergies** between them (e.g. climate stress test and Art. 8 of Taxonomy Regulation)
- **Reconciliation:** need to ensure **consistency with other reports** (FINREP / COREP / Pillar 3) and consistency with other **supervisory exercises** (e.g. ICAAP, Climate Report, ESG ratings)
- **Governance**: several teams involvement per template / data requirement

Data & information gaps

High volume of **unavailable information**, which implies:

- **Gaps** between the **information requested by regulation** in Pillar 3 ESG and the **information available**: **client classification** (i.e. NACE codes), **collaterals** (i.e. EPC label), **exposures** (i.e. sustainable exposures)
- Integrity: same (climate and non climate data for different uses.
- Need to launch lines **to capture information** both internally and externally
- Need to define **tactical solutions** / proxies for the **first disclosures.**
- **Different treatments for stock and new production.**
- **Data quality remediaton plans will be required.**

Countries dependencies

- The **involvement of countries** is necessary for providing information
- In the case of **subsidiaries outside the European Union**, there are **different regulations** by jurisdiction

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Annex 13: Pillar 3 ESG
Main challenges - Details of data & information gaps

Key aspects on most relevant climate related data: NACE, EPC, financed emissions and sustainable exposures

NACE

- Higher granularity than traditionally considered for reporting purposes.
- Equivalences must be developed for Non-EU countries where local sector activities does not fit with NACE classification.
- Different from FINREP criteria.

EPC

- Use of **external suppliers** to obtain EPC for the stock.
- **Lack of equivalent labelling** regulation outside EU.
- Implementation of energy efficiency estimation **methodology**.

Financed emissions and alignment metrics

- Implementation of financed emissions estimation **methodology** (such as PCAF).
- Difficulty on estimating alignment metrics **distance to IEA** NZE2050 scenario (such as tons of CO2/GJ), including a larger scope of sectors and three year target projection.
- Criteria for **management (e.g. target setting) vs reporting**.

Sustainable exposures

- Implementation of **screening criteria** on products to identify green exposures under taxonomy and under management criteria.
- Obtaining taxonomy compliant information disclosed by clients: **limited information** available with focus on EU and non EU corporations, specially for those not subject to NFRD.

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Annex 13: Pillar 3 ESG

Detail by template (1/3)

In the Final Report launched by EBA, the following templates are detailed, which gather qualitative and quantitative information regarding the new reporting requirements on the climate transition:

	Draft Template	Final Template	Description	Changes in templates	Entity Impact	Reference date*
Qualitative information	Table 1	**Table 1 -** Qualitative information on environmental risk.	Integration of environmental risks into business strategy and processes, governance and risk management			2022
	Table 2	**Table 2 -** Qualitative information on social risk.	The integration of social risks into its 5 business strategies and processes, governance and risk management is described	- The three aspects under which the disclosure requirements are focused on each risk category are new: business processes and strategy, governance and risk management.		2022
	Table 3	**Table 3 -** Qualitative information on governance risk.	The integration of governance risks into its business strategy and processes and risk management is described			2022
Climate change transition risk	T1 T2	**Template 1 -** Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity**.**	Risks that institutions face from the transition to a low-carbon economy. Credit quality of exposures by carbon-intensive , sustainable sectors and GHG emissions and breakdown by maturity bucket.	- The variables for other carbon-intensive sectors and probability of default (PD) were removed - Information on scope 1, 2 and 3 included on a 'best effort basis'. - CCM Alignment delayed to 2023 and 2024 for NFRD and Non-NFRD respectively		2022 2023 2024
	T3	**Template 2 -** Banking book - Climate change transition risk: Loans collateralized by immovable property - Energy efficiency of the collateral	Includes information on the distribution of real estate loans and advances and collateral recovered energy efficiency (EPC label) by EU area and non-EU area.	- Information on immovable properties on non-EU countries are included - Exposition by energy efficiency buckets - CO2 Emissions are not to be reported		2024
	T4	**Template 3 -** Climate change transition risk – alignment metrics for the banking book.	GHG emissions intensity by sector and distance to benchmark scenario based on alignment metrics	- New sectors included - New alignment metrics to report on - Includes three-year target - Aligns with Net Zero Emissions 2050		2022

*To be disclosed with reference date 31 December 2022, 31 December 2023 and 31 July 2024 respectively

Significant change   Change   No change

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Annex 13: Pillar 3 ESG
Detail by template (2/3)

In the Final Report launched by EBA, the following templates are detailed, which gather qualitative and quantitative information regarding the new reporting requirements on the climate transition:

	Draft Template	Final Template	Description	Changes in templates	Entity Impact	Reference date*
Climate change transition risk	T5	**Template 4 -** Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms.	(Environmentally sustainable) exposures towards top 20 polluting firms in the world, EU and/or member state.	- Only Top 20 World is considered - CCM Alignment delayed to 2023 - Average Maturity is now requested	Change	2023*
Climate change transition risk	T6	This template has been removed				
Physical risk	T7	**Template 5 -** Banking book - Climate change physical risk: Exposures subject to physical risk.	Credit quality of exposures prone to impact from climate change events by geography and sector	- The simplified version of this template is maintained, the extended version is eliminated (Old Template 7.2) - Maturity buckets are included - More detail on sources and estimates on a best effort basis		2022
Mitigating actions		**Template 6 -** Summary of GAR KPIs.	Summary of the GAR values	- Template included as a summary of the Gar Turnover of the Stock and Flow - The disclosure of the templates related to the calculation of the GAR is delayed to December 2023 data	Change	2023*
Mitigating actions	T8	**Template 7 -** Assets for the calculation of GAR.	Detailed information on the GAR showing the Taxonomy-aligned activities. Green Asset Ratio (GAR): assets, KPI on stock and flows	- Adapts to GAR Asset template on taxonomy (T1)** - The disclosure of the templates related to the calculation of the GAR is delayed to December 2023 data	Change	2023*
Mitigating actions	T9	**Template 8 -** Green Asset Ratio (GAR) KPIs.	Information on GAR, by environmental objective and counterpart, for specialized loans, transitory and enabling activities, and the total GAR	- Adapts to the taxonomy GAR KPI templates (T3 and T4)** - The disclosure of the templates related to the calculation of the GAR is delayed to December 2023 data	Change	2023*

*To be disclosed with reference date 31 December 2022, 31 December 2023 and 31 July 2024 respectively

**Refers to Article 8 of EU Taxonomy delegated act templates published by the European Comission

Significant change · Change · No change

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Annex 13: Pillar 3 ESG
Detail by template (3/3)

In the Final Report launched by EBA, the following templates are detailed, which gather qualitative and quantitative information regarding the new reporting requirements on the climate transition:

	Draft Template	Final Template	Description	Changes in templates	Entity Impact	Reference date*
Mitigating actions		**Template 9.1 -** Assets for the calculation of BTAR**.**	Information on the gross book value of the relevant assets for the calculation of the BTAR	- New template included for the calculation of the new Banking Book Taxonomy Alignment Ratio (BTAR) - The part of companies not subject to NFRD that is taxonomy compliant for the calculation of the KPI is included in the numerator - Similar to GAR template 7.	Significant change (red)	2024
Mitigating actions		**Template 9.2 -** BTAR %**.**	% of BTAR assets disclosed in template 1 compared to total assets in BTAR denominator	- New template for BTAR calculation - Similar to GAR template 8 - New KPI calculated based on the GAR and including the new assets from template 9.1.	Significant change (red)	2024
Mitigating actions		**Template 9.3 -** Summary table - BTAR %**.**	Summary of the BTAR KPI, broken down environmental objective, and total, and with the breakdown by stock and flow	- New template for BTAR summary - Turnover of the Stock and Flow. - Similar to GAR template 6	Significant change (red)	2024
Mitigating actions	**T10**	**Template 10** - Other climate change mitigating actions	It provides information on other actions implemented by the institution to mitigate climate change related risks. It covers other institutions that are not included in template 7 and 8.	- New fixed structure - No taxonomy-aligned detail - Able to include info on actions that comply with non-EU standards	Significant change (red)	2022

*To be disclosed with reference date 31 December 2022, 31 December 2023 and 31 July 2024 respectively

Significant change (red) · Change (yellow) · No change (green)

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4. *ISSB Sustainability-related and climate - related disclosure requirements*
5. *Corporate Sustainability Reporting Directive*
6. *New rules on Climate-related disclosures*
7. *Corporate Sustainability Due Diligence Directive*
8. *Supervisory expectations*
9. *ECB Supervisory Priorities*
10. *Draft Guidelines on the management of ESG risks*
11. *Methodology for a Climate risk stress test*
12. *Pillar 3 Climate*
13. *Pillar 3 ESG*
14. ***Enhancement and Standardization of Climate-Related Disclosures for Investors***

Annex 14: Enhancement and Standardization of Climate-Related Disclosures for Investors

General overview

In March 2024, the SEC published its final rules for the Enhancement and Standardization of Climate-Related Disclosures for Investors. The new rules follow the recommendations of the TCFD and will be gradually applicable starting in FYB 2025

Context

- In 2010 the SEC issued **guidance** on how **existing disclosure** rules may require disclosure of climate-related risks, but the guidance has proven inadequate to meet the growing needs of investors.
- In **March 2022**, the SEC **proposed rules** amendments requiring registrants to include extensive climate-related information in their registration statements and periodic reports (FS, 10-K, 10-Q and 20-F). Proposed rules based on the comments received, such as adopting a less prescriptive approach to certain disclosures, qualifying some requirements based on materiality, eliminating some proposed requirements, extending some phase in periods, and providing a safe harbor for certain disclosures.

Objective

- Improve the consistency, comparability, and reliability of climate-related information for investors, based on the TCFD framework and the input of commenters.

Next Steps

- The compliance dates for the final rules are staggered and vary depending on the size of the registrant and **will be gradually applicable starting in FYB 2025**

Overview of Disclosure requirements

- 01 Overview of the Climate-Related Disclosure Framework
- 02 Climate-related Risks Disclosure
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Annex 14: Enhancement and Standardization of Climate-Related Disclosures for Investors
General overview

The compliance dates for the final rules are staggered and vary depending on the size of the registrant.

Registrant type	Compliance Dates under the Final Rules					
	Disclosure and Financial Statement Effects Audit		GHG Emissions/Assurance			Electronic Tagging
	Material expenditures and impacts	Items 1502(d)(2)[1], 1502(e)(2)[2] and 1504(c)(2)[3]	GHG scope 1 & 2 emissions	Limited Assurance	Reasonable Assurance	Inline XBRL
Large Accelerated Filer (Public float > $700mm)	FYB 25	FYB 26	FYB 26	FYB 29	FYB 33	FYB 26
Accelerated Filer (Public float $75mm < $700mm	FYB 26	FYB 27	FYB 28	FYB 31	N/A	FYB 26
Non-Accelerated Filer	FYB 27	FYB 28	N/A	N/A	N/A	FYB 27
Emerging Growth Company (<$1.235bn annual revenue)	FYB 27	FYB 28	N/A	N/A	N/A	FYB 27
Smaller Reporting Company (< $250mm public float OR < $700mm float + < $100mm annual revenue OR No public float + < $100mm annual revenue)	FYB 27	FYB 28	N/A	N/A	N/A	FYB 27

*(1) **Item 1502(d)(2)** relates to quantitative and qualitative disclosure on material expenditures incurred and material impacts on financial estimates and assumptions that, in management's assessment, directly result from activities to mitigate or adapt to climate-related risks.*
*(2) **Item 1502(e)(2)** relates to quantitative and qualitative disclosure of material expenditures incurred and material impacts on financial estimates and assumptions as a direct result of any disclosed transition plan.*
*(3) **Item 1504(c)(2)** relates to the disclosure on any material expenditures and material impacts on financial estimates and assumptions as a direct result of disclosed targets or goals or the actions taken to make progress toward meeting the target or goal.*

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SEC's climate disclosure final rules are based on TCFD framework but tailored to investors' needs and SEC registrants' situation, including material C-R risks that affect registrants business strategy, results of operations, or financial condition and their transition plans

1 Overview of the Climate-Related Disclosure Framework

- **Purpose and scope.** Improve the consistency, comparability, and reliability of climate-related information for investors, based on the TCFD framework and the input of commenters.
- **Applicability and format.** Qualifying registrants providing climate-related disclosures in their registration statements or anual reports, , either in a separate section or in other parts of the filing, using structured data.
- **Content and revisions.** Information about governance, strategy, risk management, and metrics and targets related to climate-related risks and opportunities.
- **Relation to other jurisdictions' reporting requirements.** Tailored to the needs of investors and the situations of SEC registrants. Do not incorporate by reference any third-party framework or procedures. But may overlap with some of the reporting requirements of other jurisdictions, such as the EU and California.

2 Climate-related Risks Disclosure

- **Scope.** Disclosing any material C-R risks that affect registrants business strategy, results of operations, or financial condition.
- **Categories of C-R risks.** Physical (acute and chronic) and transition risks (regulatory, technological, market, others).
- **Disclosure items[1]:** 1) nature of the identified C-R risk (physical or transition); 2) information necessary to understand the nature and extent of the risk; 3) non-exclusive list of disclosures to be provided, as aplicable (e.g. geographic location and nature of properties, processes, or operations subject to the physical risk, type of transition risk and how it impacts the registrant).
- **Material C-R risk** meaning that if there is a substantial likelihood that a reasonable investor would consider it important when determining whether to buy or sell securities or how to vote or such a reasonable investor would view omission of the disclosure as having significantly altered the total mix of information made available.

Changes from the proposal: i) eliminating the reference to value chain impacts; ii) making the disclosure requirements less prescriptive, and iii) specifying the time frames for assessing the materiality of risks, differentiating between the short and the long term (beyond 12 months).

3 Climate-related risks & impacts on business, strategy and outlook

- **C-R risks impacts.** Describing C-R risks materially or potentially materially affecting the registrant, their effects on strategy, business model, outlook, mitigation/adaptation efforts, and the financial effects of those risks and activities.
- **Targets & goals.** Describing C-R voluntary adopted and legally required targets or goals, along with the metrics and methodologies used to measure and track progress, and the use of carbon offsets or renewable energy certificates.
- **Transition plan.** Describing transition plans if adopted to manage material transition risks, to update the disclosure each fiscal year by describing any actions taken under the plan & their impacts on the registrant's business, results of operations, or financial condition, & to include quantitative & qualitative disclosure of material expenditures & material impacts on financial estimates and assumptions as a direct result of the disclosed actions.
- **Scenario analysis.** Disclosing scenario analysis if used to assess C-R risks' impact on business, results and operations, including descriptions, parameters, assumptions and analytical choices used, and the expected material impacts under each scenario.

(1) Additionally, registrants can voluntarily disclose C-R opportunities as long as they provide citations for their claims.

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Annex 14: Enhancement and Standardization of Climate-Related Disclosures for Investors

SEC Final C-R Disclosures

Final rules require governance disclosure, detailing board oversight and management's role in assessing climate risks. Risk management disclosure outlines different processes. Financial statement disclosures aid risk assessment, with proposed metrics and methodologies

4 Governance Disclosure

- **Purpose.** Enhancing investors' ability to evaluate registrants' management of C-R risks without being overly prescriptive or influencing decision-making.
- **Board oversight.** Describing the board of director's oversight of C-R risks, identifying any board committee or sub committee responsible for such oversight and disclosing how the board oversees progress against disclosed C-R targets, goals or transition plans.
- **Management oversight.** Describing management's role in assessing and managing material C-R risks, including expertise of position holders, the processes by which they assess and manage such risks, and whether they report to the board or a subcommittee.

Changes from the proposal: i) eliminating the disclosure of specific board members expertise; ii) elimination of the frequency of board discussions, and the board's role in setting C-R targets or goals; and iii) limiting the disclosure of management´s oversight to material C-R risks.

5 Risk Management Disclosure

- **Rationale for the final rule.** Investors need of more consistent, comparable and reliable disclosure of registrants' C-R risk management practices to inform their investment and voting decisions.
- **Disclosure items in the final rule:** i) describing processes for the identification, assessment, and management of material physical or transition risks; ii) decision-making processes regarding risk mitigation; and iii) integration of climate risk management into their overall risk management system.

Changes from the proposal: i) inclusion of a materiality qualifier; ii) removal of prescriptive elements; and iii) substitution of the terms "physical risk or transition risk" for "climate-related risk" to clarify and simplify the requirement.

6 Financial Statement and other Metrics Disclosure

- **Expenditure effects.** Disclosing expenditures expensed and capitalized costs incurred due to severe weather events, & other natural conditions, as well as the related recoveries, charges, and losses, subject to a one percent disclosure threshold and an attribution principle.
- **Carbon offsets and RECs disclosure:** Disclosing capitalized costs, expenditures expensed, and losses related to carbon offsets and RECs in the financial statements, as well as the beginning and ending balances of capitalized carbon offsets and RECs, if they have been used as a material component of a registrant's plan to achieve its disclosed C-R targets or goals.
- **Transition activities.** Disclosing costs and expenditures related to carbon offsets and RECs.

Changes from the proposal. It is not required i) disclosing some proposed financial impact metrics (i.e., changes to revenues or costs from disruptions to business operations or supply chains) which would have shown the effects of climate change on various financial statement line items; and ii) general disclosing costs and expenditures related to transition activities in the financial statements.

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SEC Final C-R Disclosures

Final rules require governance disclosure, detailing board oversight and management's role in assessing climate risks. Risk management disclosure outlines different processes. Financial statement disclosures aid risk assessment, with proposed metrics and methodologies

7 GHG Emissions Metrics Disclosure

- **Scope.** LAFs and AFs that are not SRCs or EGCs are required to disclose Scope 1 and/or Scope 2 emissions metrics to their business if they are material to their business.
- **GHG Emissions Metrics.** Disclosing of any described scope of emissions in the aggregate in terms of CO2e; any constituent gas that is individually material; and iii) the methodology, significant inputs and significant assumptions used to calculate the GHG emissions. Not a specific methodology for GHG emissions calculation is required.

! **Disclosure Exclusions:** i) disclosing Scope 3 emissions; ii) disclosing GHG emissions by SRCs and EGCs; and iii) disclosing GHG emissions from a manure management systems.

- **Timeline for Reporting GHG Emissions.** Disclosing of GHG emissions metrics for the most recently completed fiscal year and, if previously disclosed in a Commission filing, for the historical fiscal year(s) included in the filing.

8 Attestation of Scope 1 and Scope 2 Emissions Disclosure

- **Scope.** Disclosing Scope 1 and/or Scope 2 GHG emissions by LAFs and AFs and obtaining an attestation report from an independent third-party.
- **Assurance Levels & Compliance Dates.** LAFs and AFs, require limited assurance from the third FYB after the compliance date for GHG emissions disclosure, with LAFs needing reasonable assurance from the seventh FYB after the compliance date.

! **Exemptions and modifications:** i) SRCs and EGCs exempted; ii) AFs exempt from reasonable assurance; iii) extended phase-in periods; and iv) flexibility in C-R disclosure placement.

- **Voluntary Assurance.** Possibility to obtain any level of assurance with specific requirements.

9 Climate-related targets and goals and transition plan, if any

- **Scope.** Any C-R target or goal that is material or reasonably likely to be material to its business, results of operations, or financial condition.
- **Additional information**. Providing additional information necessary to understand the material impact or reasonably likely material impact of the target or goal, such as the scope, unit, time horizon, baseline, and plan.
- **Progress and impacts.** Disclosing progress toward meeting the target or goal and how it has been achieved, as well as the material impacts to its business, results of operations, or financial condition as a direct result of the target or goal or the actions taken to make progress toward it.
- **Carbon offsets and RECs.** Disclosing certain information about the use of carbon offsets or RECs if they have been used as a material component of registrant's plan to achieve C-R targets or goals, such as the amount, nature, source, project description, authentication, and cost of the offsets or RECs
- **Compliance phase-in.** Allowing registrants not to comply with this requirement until the fiscal year immediately following the fiscal year of its initial compliance date for the subpart 1500 rules based on its filer status.

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The Final Rule requires registrants to report the climate-related disclosures through four main reports

1 Exchange Act annual reports and Registration Statements

The final rules provide that a registrant (both domestic and foreign private issuer) must file the climate-related disclosure in its **registration statements and Exchange Act annual reports**, for example, on Form 10-K.
Disclosing GHG emissions metrics may be incorporated by reference from the registrant's Form 10-Q for the second fiscal quarter or, for foreign private issuers, disclosed in an amendment to their annual report on Form 20-F

2 Regulation S-K mandated climate-related disclosure

The climate-related disclosures required under Regulation S-K, except for any Scopes 1 and/or 2 emissions disclosures, **must be included in a separate, appropriately captioned section** of its filing or in another appropriate section of the filing, such as Risk Factors, Description of Business, or MD&A of Financial Condition and Results of Operations, or, alternatively, by incorporating such disclosure by reference from another Commission filing as long as the disclosure meets the electronic tagging requirements of the final rules.

3 Regulation S-X mandated climate-related disclosure

The registrants must provide the financial statement disclosures required under **Regulation S-X** for the registrant's most recently completed fiscal year, and to the extent previously disclosed or required to be disclosed, for the historical fiscal year(s) included in the filing, in a note to the registrant's audited **financial statements**.

4 Electronically Reporting

The registrants will have to electronically tag both narrative and quantitative climate-related disclosures in Inline XBRL.

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